

# THE ROLE OF MICRO-FINANCE IN SUSTAINABLE FINANCE, EMPLOYMENT AND POVERTY ALLEVIATION

(A Study with special reference to Kumaun)

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fulfillment to the requirement  
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THE DEGREE OF DOCTOR OF PHILOSOPHY

By: Vinay Chandra (Research Scholar)

UNDER THE SUPERVISION OF

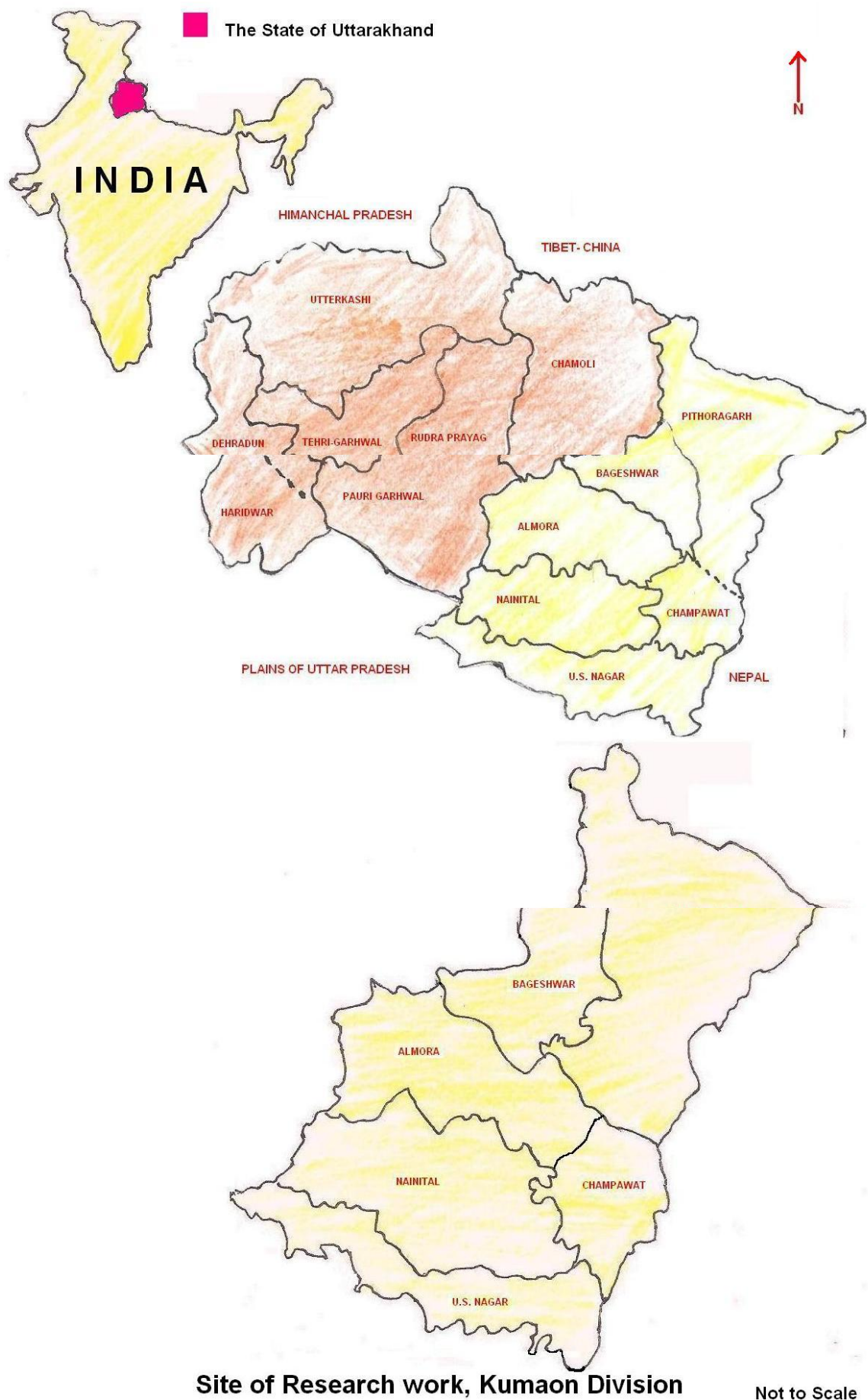
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2008

# Dedicated to My Beloved Parents





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**CERTIFICATE FROM THE SUPERVISOR**

This is certify:

- (a) That the thesis submitted by Mr. Vinay Chandra Embodies the work of the candidate himself ;
- (b) That the candidate worked under my supervision for the period required under ordinance 8 (eight), and
- (c) That he has put in the required attendance in the department during that period.

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## **DECLARATION**

I hereby declare that the Research work entitled “The Role of Micro-Finance in Sustainable finance, employment and poverty alleviation (A study with special reference to Kumaun)” submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy is my original work. My indebtedness to other works/ publication has been duly acknowledged at relevant places in the thesis. Further, it has not been submitted in part or full for any diploma or degree of any university.

Date:

Vinay Chandra

## Preface

In the State of Uttarakhand, Kumaun Division is a developing region. The topography of the Kumaun Division is such that most of the area is forest cover and among the six districts of Kumaun Division, Almora, Pithoragarh, Bageshwar and Champawat are fully hill districts. In hill districts the job opportunities are very few. The main source of livelihood in hill areas is agriculture along with some small commercial and business activities.

The situation in the plain areas of District U.S. Nagar and Nainital is somewhat different. In Bhabar and Tarai the agriculture activities are developed because in these regions the land is very fertile and good irrigation facilities are available.

In Kumaun division the main source of livelihood is agriculture due to lack of Job opportunities in the Kumaun Region some people migrated to big cities and Towns for search of job some people are in services including government and armed forces services. In hill areas of Kumaun Division there are not any specific trade or industry. But the situation in the plain areas of district Nainital and U.S Nagar is somewhat different due to the government policy and good infrastructure some small and medium industries developed in this area. It is unfortunate that large number of people is struggling for their basic needs of livelihood in Kumaun. The main cause of deep-rooted poverty and unemployment is lack of availability of adequate easy and

timely finance. Even after 60 years of independence, no substantial arrangement for credit at a reasonable interest rate has been made available from state. The money lenders are providing credit to poor people at high rates of interest. The co-operative sector is not playing key role in Kumaun.

The researcher took keen interest in evaluating the need of Finance in Kumaun Division, during the primary investigation of the subject the researcher concentrated on Micro finance and the Role of Micro Finance in sustainable finance, employment and poverty alleviation in Kumaun division.

At present the government is keenly interested to promote Micro finance in Kumaun division because finance is the life blood for any economic activity whether it is agriculture, industry or trade. For rapid agricultural and industrial development long-term and short-term credit facilities must be provided according to the needs of the poor people. The lack of financial assistance and credit facilities are the major hurdles in removing poverty and generating employment for huge masses. In these circumstances people demand a genuine, practical, workable solution for poverty alleviation and employment. In this regard the task of the government is very challenging to make plans and strategies.

The main purpose of the research work is to evaluate the need of Micro finance for poor people in Kumaun and the role of Micro finance in the fields of sustainable finance, employment and poverty alleviation. The study aims at evaluating the impact of Micro finance in Kumaun division.

The research work has been divided into six chapters. In detailed study, the researcher find out important facts, major conclusions were derived and suggestions were made so that the Micro-finance could prove itself as a tool for poverty alleviation in Kumaun division.

The findings of the thesis will help State Government, NABARD, NGOs and Micro-finance Organisations to make plans and strategies for Micro finance sector in Kumaun.

I begin by expressing a deep sense of gratitude to my superior Prof. L.S. Bisht, Department of Commerce Kumaun University, Nainital. Who supported me by every means in all way he could, throughout my pursuit.

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## Abbreviations Used

AAJEEVIKA: An IFAD (International Fund for Agricultural Development) Associated Project for Capacity Building of Community Based Organizations and Self Help Groups.

ADB : Asian Development Bank

AUCB: Almora Urban Co-operative Bank

CBS : Commercial Banks

CCBs : Central Cooperative Banks

CCL : Cash Credit Limit

CHEA : Central Himalayan Environment Association

CHIRAG : Central Himalayan Rural Action Group

DRDA : District Rural Development Agency

DWCRA: Development of Women and Children in Rural Areas (A Indian Government Programme)

FAO : Food and Agriculture Organization

GB : Grameen Bank (Bangladesh).

H.W.S. : Hill Welfare Society ( A NGO of Uttarakhand

HDFC : Housing Development Finance Corporation, India

IBA : Indian Banks Association (Mumbai)

IDBI : Industrial Development Bank of India

IFAD : International Fund of Agricultural Development (United Nations Agency

IFAD: International Fund for Agricultural Development

IMF : International Monetary Fund

INHERE : Institute of Himalayan Environmental Research and Education.

IRDP: Integrated Rural Development Programme

JRY : Jawahar Razgar Yojana

KKS : Kumaun Sewa Samiti, (ANGO of Uttarakhand)

MF: Micro Finance

MFI : Micro Finance Institution

MFO : Micro Finance Organisation

MFOs : Micro Finance Organisations

MFOs: Micro Finance Organization

MNC : Multi-National Corporation

MYRADA: Mysore Resettlement Development Agency

NABARD: National Bank of Agriculture and Rural Development

NBCs : Non-Banking Companies

NBFC : Non Banking Finance Company

NGO : Non Governmental Organizations

NPA's : Non Performing Assets.

PMGSY : Pradhan Mantri Gram Sadak Yojana

PMU : Project management Unit

PRADAN: Professional Assistance for Development Action (NGO based in New Delhi)

Pvt. Ltd.: Private Limited (Company)

RBI : Reserve Bank of India (India's Central Bank)

RBI: Reserve Bank of India

RGVN : Rashtriya Gramin Vikas Nidhi

RMK : Rashtriya Mahila Kosh (National Credit Fund for Women, India)

RRB : Regional Rural Bank

RRB : Regional Rural Bank

RS : Indian Rupees

SB : Saving Bank Account

SBI: State Bank of India

SBS : Sub Sector Business

SCARDBs : State Cooperative Agricultural and Rural Development Banks

SCBs: State Cooperative Banks

SEWA : Self-Employed Women's Association (Union Based in Ahmedabad).

SGRY : Sampoorna Gramin Rozgar Yojana

SGSY: Swarnajayanti Gram Swarozzar Yojana

SHGs : Self help Groups

SHGs : Self Help Groups

SIDBI : Small Industries Development Bank of India

SJSY: Swarna Jayanti Swarozzar Yojana

ST : Short-term loans

SVCC : Social Venture Capital Company

UGVS: Uttarankhand Gramya Vikash Samiti

VVV: Vikas, Volunteer Vahini

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# CHAPTER-1

## INTRODUCTION

When India got independence in 1947, India inherited a shattered economy. The economy was completely damaged. This damage was largely done by the exploitative policies adopted by the British rulers in India and finally by the partition of the country. The economy that we inherited was full of miseries and wide spread poverty and unemployment.

To reconstruct and rebuild the economy, we chose the path of planning, which meant that the state would play a vital role in deciding the levels and methods of production, distribution, and consumption. Our constitution also gave scope for the market to function; it means India's process of economic development was launched within the frame work of mixed economy. After 60 years of independence we achieved good result in the field of service sector industry and agriculture. But it is unfortunate that large numbers of people are struggling for their basic needs of living hood.

In India 21.1% of entire population is presently below poverty line.<sup>1</sup> The main cause of deep-rooted poverty and unemployment is unsustainable development, unsustainable finance and lack of availability of sustainable finance. Finance brings together various segment of economy. With the help of finance economy smoothly function and moves in the direction of achieving the economic goals. If

proper finance facilities training and vocational assistance provided by the government through Micro-Finance, we can look forward to solved the problem of poverty and unemployment.

## Development of Financial Sector in India

In India Finance system operates through two sets of institutions- Formal and Informal sectors.

In formal sector we include co-operative societies, land development banks, commercial banks, regional rural banks, NABARD, etc. "The formal sector has adopted a multi-agency approach and includes the Co-operatives, Public Sector Commercial Banks, and Regional Rural Banks (RRB's)"

Formal Finance refers to the funds made available to the rural people by various institutions such as co-operative societies, co-operative banks, and state governments. The major objective of the formal Financial Sector has been to provide access to institutional credit for poor people and other weaker sections.

Informal Financial Sector operates outside the formal system consists mainly of rotating savings and credit associations (ROSCA), traders, moneylenders, landlords etc.

The special feature of informal financial sector is to advance loan on very high rate of interest. The working of the informal financial sector is so simple that the farmers and borrowers may approach them at any time. Borrowers have to pledge their ornaments, land valuables for borrowing funds. These bankers are virtually expletory of poor rural people. In 1881 earliest cooperative societies were established in India. This was the beginning of formal financial sector in India. After

establishment of cooperative societies government had launched many legislation for the development of formal finance sector in India. The history of formal financial sector in India is as following:

- In 1793 the Taccavi loans issued first time by the government.
- In 1891 the British government recognized the importance of rural credit facilities and passed the first cooperative societies act. The main aim of passing the act was to promote alternative for credit and cheaper Agriculture Finance facilitate strides in delivering credit for agriculture and rural development.
- 1915 Maclagan committee advocates one village on crop concept.
- In 1923 Royal commission on agriculture advocates expansion of rural credit with state patronage. The term of reference of the Royal commission on Agriculture in India, 1928, was following.
  1. The Royal Commission on agriculture makes recommendations for the improvement of agriculture and the promotion of the welfare and prosperity of the rural population.
  2. The measures being taken for the promotion of agricultural and veterinary research experiment, demonstration, and education for the compilation of agriculture statistics, for the introduction new and better crops and for improvement in agricultural practice, dairy, harming and the breeding of live stock.

3. The existing methods of transport and marketing of agriculture produce and stock.
4. The methods by which agricultural operations were finance and credit afforded to agriculturists.
5. The main factors affecting rural prosperity and the welfare of the agricultural population and to make recommendation for the governments.<sup>2</sup>
6. 1931 Central Banking enquiry committee suggests linking agriculture finance with central banking functions.
7. 1934 Committee headed by Malcolm Darling examines if the operations of commercial banks could be coordinated to the advantage of agriculturists.
8. 1935 Agricultural credit department established in the Reserve Bank (RBI) to promote cooperative credit.
9. 1945 The agricultural finance sub-committee submits its report, recommending liquidation of non-performing assets of members by adjusting the claims of the cooperative to the capacity of members to repay. This marks the first blow to credit discipline.
10. 1945 The cooperative planning committee advocates that the cooperative sector receive state protection from private competition.

Those were some of the major pre-independence committees which have tried to make the formal credit delivery system more effective and play an important role in the development of formal finance system in India. After independence major structural changes

were introduced in formal financial system. The main substance of structural change in finance system was to enhance the financial facilities for poor and weaker section of the country.

The post independence reforms and structural change in the formal finance sector are following-

- In 1949 Indian Government passed the banking regulation act, this act provided homogeneity and coherence to the banking system and gave it a sense of direction in the field of deposit mobilization and credit dispensation.<sup>3</sup>
- In 1949 the Rural Banking Enquiry Committee finds that cooperative infrastructure is satisfactory but commercial banks have not shown any significant interest in agricultural and rural credit.
- In 1954 all India Rural Credit Survey submits report advocates majority participation by the state (51% share capital) in cooperatives at all levels, recommends a common cadre for employees of cooperatives and suggests a three tier cooperative structure. Share of informal sources in total rural credit usage is 70 percent, compared to cooperatives (6.4 percent) and commercial banks (0.9 percent).
- 1960 the committee on cooperative credit proposes a strong and stable institutional framework for cooperatives.
- 1969 Nariman Committee introduces 'Lead Bank Scheme, thereby starting a process of district credit plans and coordination among various formal financial intermediaries.<sup>4</sup>

Post Nationalization Period

In order to have an all round development of the economy, most of the major commercial banks were nationalized in India in 1969. After nationalization the Reserve Bank of India also begins in focusing uniform interest rates, spreads and service charges among nationalized banks. The main objective of nationalization of 14 commercial banks was following.

- (i) To provide more and more credit facilities to the small farmers, traders, small industrialists and unemployed mass.
  - (ii) To fulfill the credit needs of public sectors enterprises.
  - (iii) To credit more financial facilities for rural and backward areas of the country for sustainable economic development and also aimed at making the banking institutions viable and efficient in rural areas.
  - (iv) For better co-ordination of formal financial institutions and there policies, plans, activities and aims and fulfill the long term credit needs of the large scale industries.
- Nationalization of 14 commercial banks gives a new direction to the formal financial sector.
  - In 1975 Hazari Committee advocates the interaction of short and long-term credit structure.
  - In 1976 National Commission on Agriculture experiments with a new form of cooperative, the farmer's service cooperative with active collaboration from the Commercial Banks.<sup>5</sup>
  - In 1980 a remarkable development occur in the field of rural credit system the self help groups (SHGs established in some states of India, the main object of SHGs is empowerment of



weaker section of the society. SHGs Aims at providing finance facilities for huge mass and enhancing small savings facilities in rural India most of SHGs manage by NGOs without any direct involvement of the state.

- In 1980-81 the government sets up the integrated Rural Development Programme (IRDP) to direct subsidized loans to poor self employed people through the banking sector, over almost two decades (IRDP) extended assistance to about 55 million families.
- In 1981 all India debt and investment survey shows that of the formal financial sector in total rural credit usage is now 61.2%, while informal sources have fallen to 38.8%.
- In 1982 the national bank for agriculture and rural development (NABARD) is set up.
- In 1982 government established development of women and children in Rural Areas (DWCRA) as a subscheme of the IRDP to enable poor women to take up income-generating activities by giving groups of 15 to 20 women a revolving fund.
- Mid 1980s, savings and credit groups (self help groups of SHGs) begin emerging all over the country, most catalysed by non governmental organization (NGOs) without the involvement of the state.
- In 1989 khusro committee recommends a more market oriented approach for cooperatives. .
- In 1991 economic liberalization takes off.

- In 1991 all India debt and investment survey shows that share of the formal financial sector in total rural credit usage is 56.6% compared to informal finance 39.6% and unspecified (3.8%).
- In 1991 Brahm Prakash Committee comes out with a model cooperative societies act, with less state involvement
- In 1991 Narsimham Committee's report on the financial system suggests, among other things, haring out confessional rates of interest.
- In 1992 NABARD starts its linking programme of refinancing and encouraging banks lending to SHGs.
- In 1993 Rashtri Mahila Kosh (R.M.K. or the national credit fund for women) established to accelerate the flow of credit through NGOs to self-employed women in the unorganized sector. (Until March 2001 RMK had supported close to 1100 NGO with disbursement of Rs. 72.6 crore (726 million) to benefit 39300 women.
- In 1995 the government of Andhra Pradesh asses the new mutually aided cooperative societies (MACS) Act, granting autonomy to cooperatives.
- Several states follow suit and pass the new act.
- Several savings and credit cooperatives in Andhra Pradesh register, under the new cooperative act.
- 1996 RBI introduces a new form of bank, the local area bank, to operate in three contiguous districts, modeled on similar banks in Indonesia.

- In 1998 R.V. Gupta Committee submits report on the flow of interest rates and introducing substantial changes in appraisal methodologies.
- In 1998 Sa-Dhan (The Association of community development finance institutions) set up by micro-finance organizations (MFTs) in India.
- In 1999 the SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI) sets up a foundation for. Micro-credit with initial capital of Rs. 100 crore. (10000 million).
- In 1999 taskforce on supportive policy and regulatory framework for micro-finance submits report, signifying a major setup towards main streaming micro finance.
- In 2000 RBI declares bank leading to Micro-Finance as a part of the priority sector.
- In 2001, 285000 SHGs have taken loans from 41 commercial banks 166 RBI and III cooperative banks coverage loan per group about Rs. 18000). During the year 2000-2001, 171000 SHGs taken loans of which 149000 are first time borrowers.
- In 2001 a working group to review the legislation and regulatory framework RRBs is established.<sup>6</sup>

Table-1

#### Establishment Years of Major Financial Institutions in India

S. No.	Particulars	Year
1	Imperial Bank of India	1921
2	Reserve Bank of India (Nationalization of RBI took	January 1, 1949

	place on	
3	State Bank of India	July 1, 1955
4	IDBI (Industrial Development Bank of India	July 1, 1964
5	General Insurance Corporation (LIC)	Nov. 1972
6	Regional Rural Bank	Oct. 2, 1975
7	NABARD (National Bank for Agriculture and Rural Development)	July 12, 1982
8	SIDBI (Small Industries Development Bank of India)	1990
9	National Housing Bank	July, 1988
10	Life Insurance Bank Corporation (GIC)	September, 1956
11	Technology Development & Information (Corporation Ltd.	March, 1989
12	Housing Development Finance Corporation Ltd. (HDFC)	1977

## Development of Non-Governmental Organization

After 1980 remarkable developments occur in the field of finance sector the SHGs established in India. These SHGs directly controlled by the NGOs today the NGOs play an important role in the development of our society. They endeavor for making good living conditions of the poor, backward, unemployed people.

"India is a socialist country and our Government thrusts upon the upliftment of the vulnerable sections of the society. But without proper implementing agencies working at the grass roots level, all budgetary allocations, Government grants and aid schemes will go down the

drain. It is the NGOs execute the various Government programmes and thus play a significant role in achieving the socialist objective of our constitution. It is because of NGOs that we see a more civilized society.<sup>7</sup>

### Government to introduce 'Micro-Finance Bill' 2007

Government has announced that the Micro-Finance Institute (MFI) Bill seeking to make the National Bank for Agriculture and Rural Development (NABARD) as the sector regulator, will be introduced in the budget session of parliament. The proposed bill aimed at putting in place stricter regulations for institutions engaged in deposit and lending of funds, and minimum regulations for others engaged in offerings there services at the micro-level.

NABARD would be appointed as regulator for the micro-finance sector and the bank would later frames rules for maintenance of credit adequacy ratio (CAR) and other norms

The bill has a provision to safeguard the interest of people depositing their money in self-help groups (SHGs). Besides, MFIs could be penalized for violation of these norms. The MFI bill is an attempt to link the 'resource-rich commercial bank' with the target of reaching out to wider sections of the society.

The bill also aims to foster competition, which would result in lower interest rates, even among the traditional sources of micro-finance, the moneylenders.

The bill would also have a provision for private money lenders to register themselves as a small credit lending entity.

The Micro Finance Bill 2007, introduced by the Union Finance Minister in Lok Sabha on 20<sup>th</sup> March 2007, looks to achieve orderly growth and development of the microfinance sector in India.

### Meaning of Micro-Finance and Micro Credit

The terms micro credit and micro finance have risen spectacularly to fame in development literature in the last decade and a half.

The declaration of the micro credit summit held in Washington DC in 1997 defined micro credit programmes as those “extending small loans to poor people for self-employment projects that generate income, allowing them to care themselves and their families.” The declaration also stated that, “in most cases, micro credit projects offer a combination of services and resources often include saving facilities, training, and networking.”<sup>8</sup>

In India, the task force on supportive and regulatory framework for micro finance defined micro finance as the “Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas enabling them to raise their income levels and improve living standards”.<sup>9</sup>

### Need of Micro- Finance

The financial base of the poor people is very weak in our country. The scale of their economic activity is limited because they did not have easy, timely, and sustainable finance facilities. As a result they have to rely on informal credit suppliers like landlords, traders, and money lenders at high rates of interest.

The formal finance sector is unable to fulfill the finance need of poor people.

In our country there are some limitations of formal financial sector that's why formal financial sector is unable to fulfill the various requirements of the poor people formal financial institutions in our country whether commercial bank or co-operatives have been not very successful in fulfillment of financial requirement of small farmers, like wavers, carpenters, artisans and manual labors and service providers agricultural labors, construction workers, paper pickers and domestic workers. There are various complications in formal finance sector like high opportunity costs and low credibility.

- Credit alone is useless unless packaged with training, marketing, transportation facilities, technology and education if proper finance facilities, training and vocational assistance provided by the government through Micro-Finance organization, we can look forward to solved these problems in the times to come.
- Credit to the poor is counter productive as it imposes the burden of loans on the poor who have no repaying capacity.
- The consumption and social needs are so pressing that any loan will be diverted from production requirements.

In India informal finance services have mostly been controlled by the rich land lords, who are able to use their large financial resources and influence within the local power structure to secure loans at very advantages terms. The government credit policies are generally concentrated on land-based agricultural production programmes

neglecting off farm activities in which the poor mainly engaged. For small financial needs many people depends on exploitative informal sources of credit such as money lenders and traders. These money lenders and traders are able to respond quickly and with great flexibility to pressing demands, and exploit the poor. In India the cooperative system play very important role for providing finance services to the rural poor.

### Role of Rural Credit Co-Operative Institutions

The Rural Credit Co-operation Institutions (RCCIs) are one of the strong arms of rural finance institutions, (RFIs), have made significant strides in delivering credit for agriculture and rural development.

Reserve Bank of India setup the all Indian Rural Credit Survey Committee with a committee of directions, the committee's greatest contribution was keeping up the Nation's commitment to the co-operations with its, verdict, "Co-operation has failed but it must succeed." This committee also called for an integrated scheme of reorganization of the system based on the three fundamental principles-

1. State partnership at different levels;
2. Co-ordination between credit and other economic activities specifically marketing and processing; and
3. Management of Co-operatives through adequately trained and efficient personnel who are responsive to the needs of the rural population.<sup>8</sup>

### Present Structure of Co-Operative in India



Co-operative banks in India also perform fundamental banking activities but they are different from commercial banks. Commercial banks have been constituted by an Act passed by parliament while co-operative banks have been constituted by different States under various Acts related to co-operative societies of various states. Co-operative bank organisation in India has three tier set up. State Co-operative Bank is the apex co-operative institution in the state Central or District Co-operative Bank works as district level. At the lowest level co-operative set-up is Primary Credit Agency which works at village level.

Commercial banks have been constituted under unitary basis and every commercial bank has been given authority to seek refinance facility from RBI while only State Co-operative Bank has been provided this facility under co-operative banking structure.

Commercial bank can establish its branches in any district/state of the country while, contrary to it, co-operative bank can operate its activities only within limited area. For example, District Co-operative Bank can perform banking activities within the boundaries of the concerned district. Similarly, Primary Credit Societies can perform banking services within concerned villages. Co-operative banks cannot open their branches in foreign countries while commercial banks can do that.

Banking Regulation Act, 1949 is fully applicable to all commercial banks while it is partially applicable to co-operative banks. In other words RBI has partial control on co-operative banks.

Co-operative banks work on principles of co-operation while commercial banks adopt pure commercial principles in their operation. That is the reason why Co-operative banks succeed in getting financial assistance from RBI on concessional rate.

As per the recommendations of the Task Force on Reviving the Co-operative Credit Structure (Chairman: Prof. Vaidyanathan), Government has finalized action with regard to short term cooperative credit structure. Government's share of the total financial package has been increased from 53% to 68% on an aggregate basis.

Urban Co-operative Banks- There were 2104 Primary (urban) Co-operative Banks in the end of Dec. 2003 working in the country. Primary Co-operative Bank (PCBs) have to disburse 60% of their total advances to primary sector and at least 25% to weaker section of the society. Total deposits and advances of UCBs were Rs. 103478 crore and Rs. 61930 crore, respectively on Dec. 31, 2003. Out of 2104 UCBs, 176 were under liquidation and 636 had turned weak/sick.

Primary Credit Societies- These societies provide short term credit facilities to agriculture sector. Minimum 10 persons of a village (r area) can form a primary credit society. These PCSs are also called Primary Agriculture Credit Societies. These societies grant short-term loans (generally one year period) for productive activities but this period can be extended upto 3 years under special circumstances.

The various reconstruction and revival programmes for PCSs adopted by Indian Government and RBI have considerably reduced the number of primary credit societies over past two decades. There were 161000 PCSs in 1970-71 which got reduced to 88000 in 1994-95, but

again it increased to 93000 in 1995-96. As on March 31, 2001 about 1 lakh primary agricultural credit societies with membership approximately 10 crore, have outstanding deposits and loans of Rs. 13481 crore and Rs. 34522 crore respectively. However, a large number of PACs, face severe financial problems primarily due to significant erosion of own funds deposits and low recovery rates.

### Central (or District) Co-operative Bank

The working area of these banks is limited to one district only. Central Co-operative Bank can be divided into two parts:

1. Co-operative Banking Union
2. Mixed Central Co-operative Bank

The membership of Co-operative Banking Union is given to Co-operative Societies only, while the membership of mixed Central Co-operative Bank can be granted to both Co-operative Societies and individuals. Generally all states in India are having Central Co-operative Banks with mixed membership and are providing sufficient financial assistance to both PCSs and individuals.

Central Co-operative Banks get loans from State Co-operative Bank and give loan to Primary Credit Societies. The duration of such loans vary from one year to three years. in this way Central Co-operative Bank plays a bridge role between State Co-operative Banks and Primary Credit Societies. At the end of March 2004 there were 366 Central Co-operative Banks working in the country with deposits of Rs. 73000 crore.

State Co-operative Bank (SCB)-It is the apex Co-operative Bank of the state. It grants loans to Central Co-operative Banks and regulates

their activities. State Co-operative Bank gets loans from RBI. Hence, SCB acts as a link between RBI and Central Co-operative Banks.

State Co-operative Bank raises its current capital by shares and loans. RBI generally provides loans to SCB on interest rate, one or two per cent lower than bank rate.

At the end of March 2001, 30 State Co-operative Banks are working in the country with deposits of Rs. 39000 crore.

### Regional Rural Banks

Regional Rural Banks (RRBs) were established since 1975 under the provisions of the RRB Act 1976 with a view to developing the rural economy as well as to creating an alternative channel to 'Co-operative Credit Structure' in order to ensure sufficient institutional credit for rural and agricultural sector. In other words, Regional Rural Banks (RRBs) were established to take the banking services to the door steps of rural masses, especially in remote rural areas with no access to banking services. These banks provide institutional credit to the weaker sections of the society at concessional rate of interest. These banks were also intended to mobilize rural savings and channelise for supporting the productive activities in the rural area. On October 2, 1975, initially 5 RRBs were established at Moradabad and Gorakhpur (UP), Bhiwani (Haryana), Jaipur (Rajasthan) and Malda (West Bengal). Later on RRBs were extended to other districts of the country.

Though RRBs were initially intended to support productive activities in the rural areas, with effect from April 1997 the concept of priority sector lending was made applicable to RRBs. Similarly the

interest rates on term deposits offered and interest rates on loans charged by RRBs have also been freed.

The credit outstanding of all the 196 RRBs stood at Rs. 32,870 crore as at the end of March 2005 and Rs. 62,143 crore were mobilized as deposits by RRBs till that date. RRBs which comply with certain prescribed conditions are also permitted to open and maintain non-resident accounts in Rupees.

With a view to consolidating and strengthening RRBs, the Government of India initiated, in September 2005, the process of amalgamation of RRBs, in a phased manner. Till 31 August, 2006, 134 RRBs have been amalgamated to form 42 new RRBs, sponsored by 18 banks in 16 states, bringing down the total number of RRBs to 104 from 196. The amalgamation process is still continuing.

Historically, cooperative credit institutions represented the earliest form of self help initiatives. Over the years, their self-help character has declined due to various reasons the more difference between the cooperatives and SHGs following-

### Main difference between the Co-operatives and SHG

- Cooperatives tend to be large and formal reducing the participation of individual members. The typical size of an SHG would be around 20 members.
- In cooperatives, in spite of the one man one vote principle, the needs of poor borrowers get marginalized because of the stronger economic and political status of the vested interests. Typical SHGs consisting of poor members having

homogeneous socio-economic backgrounds are likely to serve the credit needs of the poor better.

- The cooperatives tend to get dominated by the vested interests. The SHG working is managed through consensus of all members during periodic, usually monthly meetings.<sup>10</sup>

In our country many National Rural Development programmes in the form of integrated efforts or cooperatives have endeavoured to increase the availability of financial services, reduce collateral or other requirements, and adapt procedures to rural client. Credit cooperatives are widespread in India but because of the principal of open membership, most cooperatives have come under the control of well to do powerful farmers and hence failed to make any contribution in the fields of sustainable finance, employment and poverty alleviation programmes. In our country the formal financial sector credit programmes are very traditional as a result the poor people are unable to get maximum profit of formal financial sector. The main limitations of the formal financial sector are following-

### Limitations of Formal Financial Sector

- The social economic and political gap between the rich and poor, especially in the field of borrowing.
- Cooperatives have come under the control of big rich and powerful individual.
- Lack of information relating the credit schemes terms, obligation etc. were not known to poor people.
- Restricted banking hours leading to lower accessibility.

- Low business and out reach levels, poor loan recovery performance, poor income margins due to increasing management cost and poor operational skills.
- Unavailability of long term and flexible credit
- The formal financial sector is unable to fulfill the requirements of consumption credit needs for poor people.
- Institutional procedures not appropriate to clients needs.
- Lack of improved methods of banking, infrastructure, savings, and new technology.
- Lack of practical, workable solution for generating finance/credit for huge mass.
- Lack of proper supervision, training and vocational assistance for poor client.

“The expansion and spread of the formal finance sector in India after 1969 have resulted in surfacing of several internal deficiencies in the banking system customer service was affected badly, work technology remained stagnant and the transaction cost kept on increasing over the years”.<sup>11</sup>

The key activity of a group is savings and credit savings and credit to SHGs have been set up throughout the world as a way of supporting poor to take control over their own lives and work out to overcome poverty. SHGs offer the poor members the opportunity to support and learn from each other and flexible way to built up income generating activities.

Group savings are very important for SHGs because savings can encourage people to take on a longer term view-to plan and think of future needs.

For a group to be successful, the members must be committed to manage the group and should keep the records in a proper manner

### Advantages of Micro Finance

The term micro finance is of recent origin is commonly used while discussing issues related to –

- Income distribution among a wider section of population.
- Purchasing power redistribution where a large number of people do not have enough purchasing power to participate in a market economy.
- Savings in small amounts and small loans in a flexible, sensitive and responsive manner
- The availability of timely, sufficient, and un-interpreted finance for poor people.
- Finance support to micro-entrepreneurs
- Gender development, etc.

The term, micro literally means “small” but, the taskforce on supportive policy and regulatory framework for micro-finance has not defined any amount. However, as per the Micro-Credit special cell of the Reserve Bank of India, the borrowed accounts up to the limit of Rs. 25000 could be considered as micro-credit products and this amount could be gradually increased upto Rs. 40000 over a period of time



which roughly equals to US \$ 500 a standard for South Asia as per international perceptions.

The term micro finance sometimes is used interchangeably with the term micro credit. However, while micro credit refers to purveyed of loans in small quantities, the term microfinance has a broader meaning covering in its ambit other financial services like saving, insurance, etc. as well.

Objectives of Micro-finance- The main objectives of Micro-finance are following in Kumaun Division.

- To promote financial sustainability to the poor people.
- To promote poor people for making SHGs.
- To provide employment for poor people with the help of Micro-enterprises.
- To promote unity among SHG members to give them collective identity for collective action.
- To mobilize, promote, protect, and empower community based organizations.
- To strengthen and protect institutions of civil society through greater and more responsible participation.
- To develop people centred and controlled natural resource management systems and practices for common natural resources.
- To developed a society based on security, harmony, with equal opportunity and participation of women and men.
- To work for poverty alleviation and sustainable development.

- To help for providing low cost, easy, adequate and timely finance for poor people.
- To provide vocational assistance for poor people.
- To work for poverty alleviation.
- To promote savings among poor people.
- To promote self employment with the help of micro-credit and income generation through capacity building and skill training.
- Try to understand social and economical problems and needs of poor people.
- To impact on policy making bodies and implementing organizations, political and administrative institutions through continuous dialogue and interaction.

## The Paradigm Shift

Now, the micro finance 'approach' has engendered a new relationship between the bankers and the poor, because with the help of this tool (microfinance) the banks have reported 95% on time repayment by SHGs across the country; and they have reported nil Non Performing Assets (NPAs.) Nothing short of a miracle when compared to earlier interventions. What is the 'Mantra' of this miracle?

The 'Mantra' is banking through groups. The essential feature of the approach is to provide financial services through the groups of individuals, formed either in joint liability or co obligation mode. The other dimensions of the micro finance approach are.

- Saving/thrift precede credit.
- Credit is linked with saving/thrift.
- Absence of subsidies
- 4.Group plays an important role in credit appraisal, monitoring and recovery.

Absence of subsidies; and Group plays an important role in credit appraisal, monitoring, and recover.

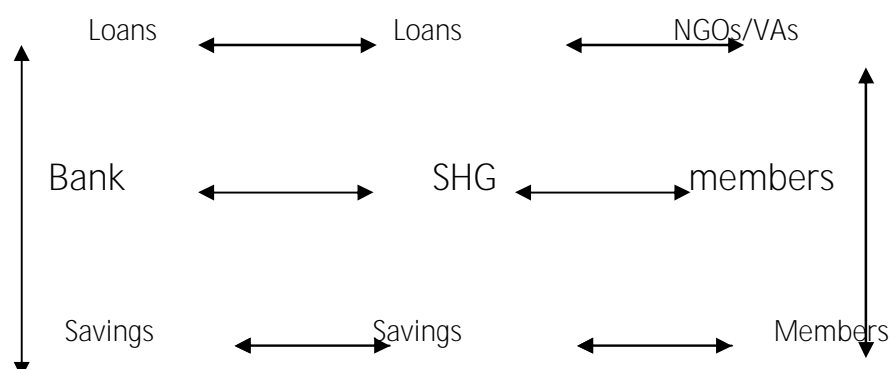
## Models of Micro finance practices in India

There are a variety of delivery models for microfinance in India

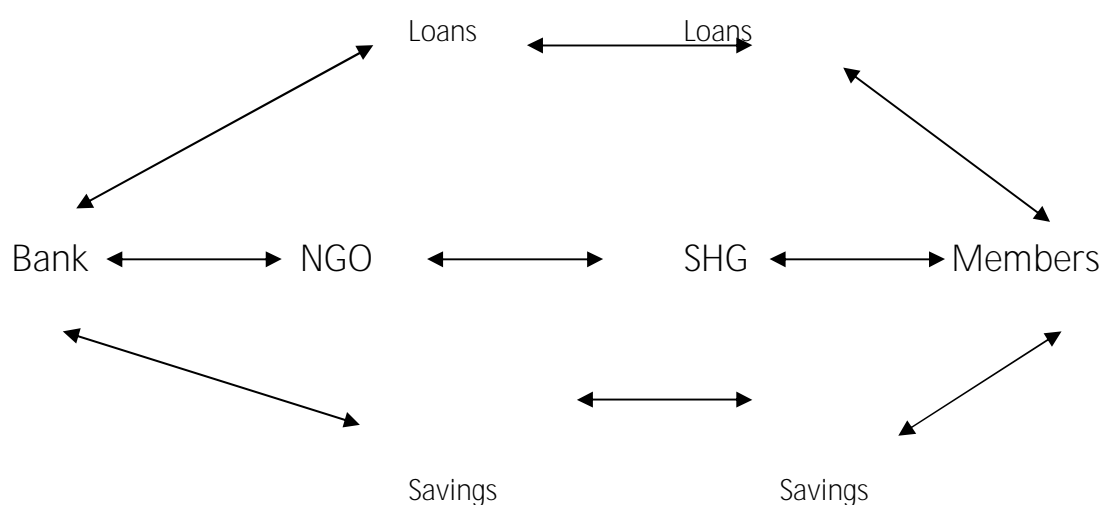
### (i) The SHG linkage Model

Under this model, groups are formed by different agencies known as self-help promoting institutions (SHGs). There could be NGOs, voluntary associations, Government Agencies, Panchayati Raj Institutions, Vikas Volunteer Vahini (VWV) Clubs, Banks, Cooperative Societies etc.

The financial interaction takes place in the following channels. (a)  
Without Financial Intermediation of



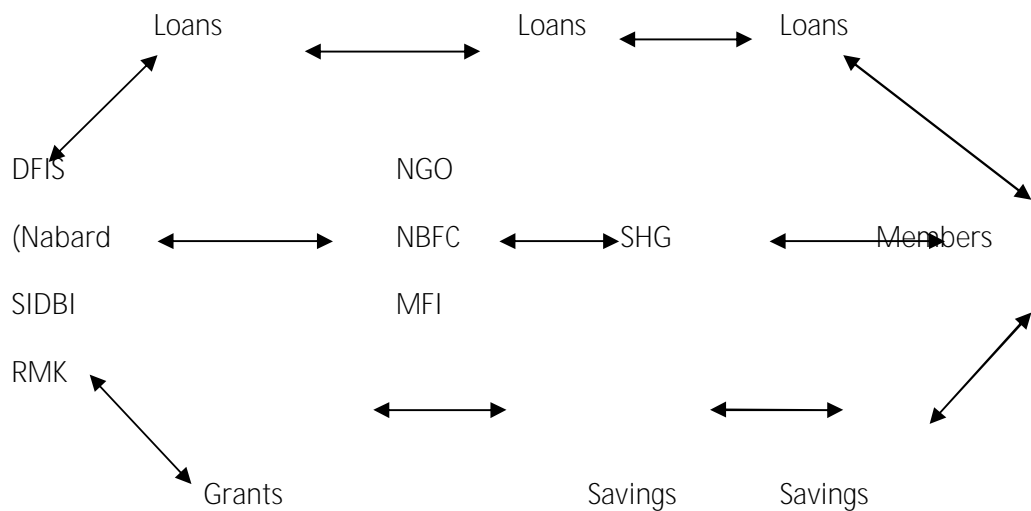
(b) With the Financial Intermediation of NGOs/Vas



In this model, a part of banks work is externalized to the NGO/VA.

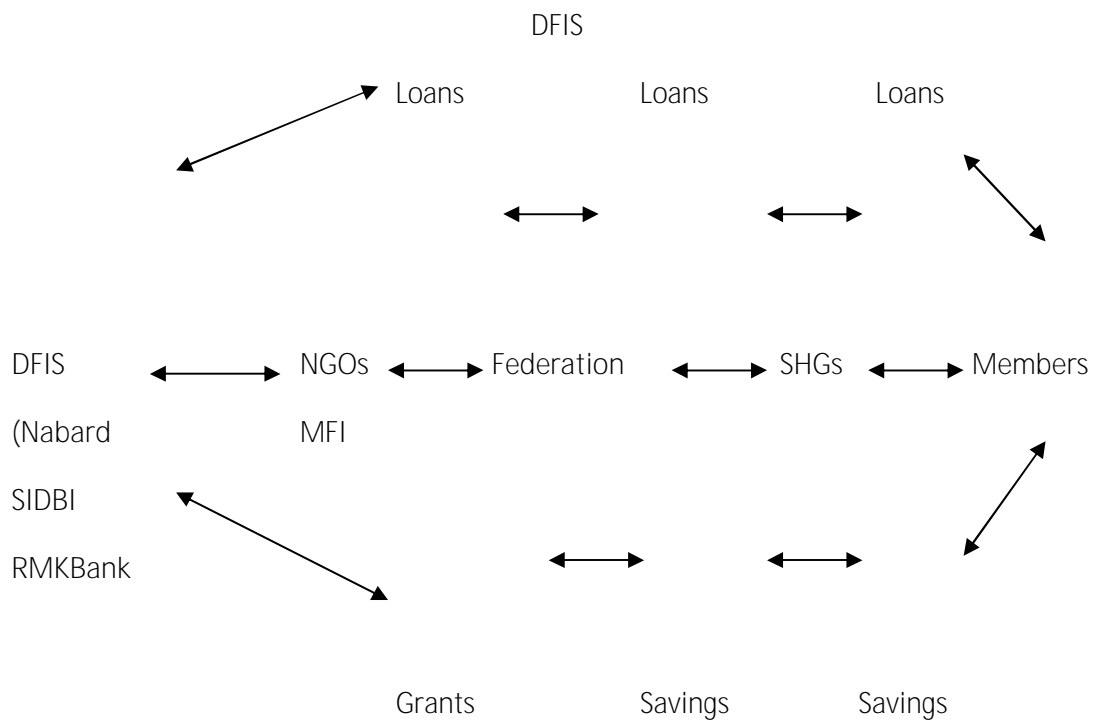
(ii) Microfinance Institutions (MFI)/NGO-SHG Models-

Another delivery model involves NGOs, Vas, MFIs, NBFCs, etc. accessing funds either from banking system and/or from Developmental financial institutions (DFIs) like NABARD and SIDBI for giving loans to SHGs either in group or individual mode.



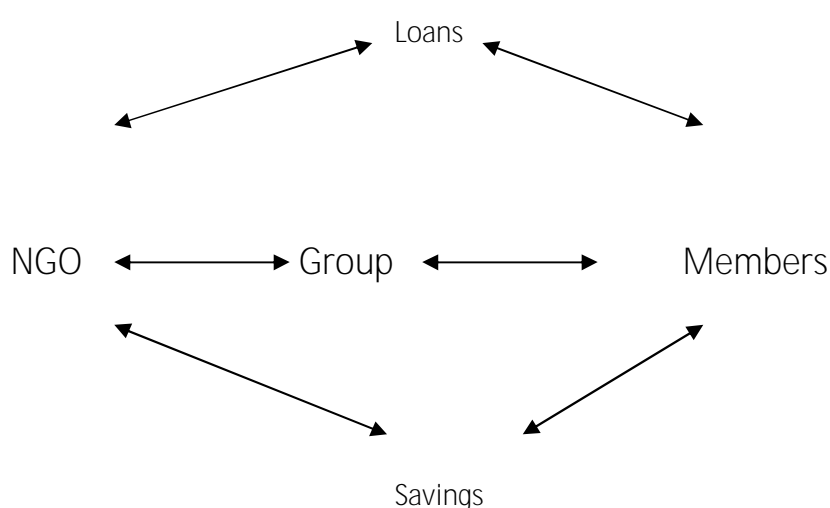
### (iii) NGO/MFI federation-SHG Model

Here the SHGs get financial services, mostly savings and credit, with the help of federations which could be as shown under.



### (iv) Grameen Model

Here the financial assistance, i.e. loans for productive purposes is provided by the MFIs/NGOs directly to the members of small groups (i.e. affinity groups consisting of about 5-7 members) directly on the strength of group assurance. It is often coupled with an obligation to save by group members the flow chart could be as under



This model is being followed in India by SHARE Micro Finance Ltd. Activists for social alternatives (ASA) and (ASHPOR) finance and technical services Ltd. The Indian banks have, so far, not adopted the Model perhaps because of high delivery cost.

#### (v) The cooperative Model

This has been initiated by cooperative development forum (CDF), Hyderabad which has relied upon a credit union model involving savings first strategy. It has built up a network of women thrift groups (WTGs) and man thrift groups (MTGs). They are registered under Mutually Aided Cooperative Society Act (MACs) and mobilize savings

resources from the members and access outside supplementary resources from the institutional system.<sup>12</sup>

### Micro Finance in India

Two types of micro finance models have been implemented in India

Self Help Groups-Bank Linkage Model	Integrated Rural Development Programme (IRDP)
Partnership between NABARD, Banks, NGOs and SHGs, Small Size homogenous groups, collateral free loans but repayment assured through peer pressure and group dynamics, three types of linkages.	Government sponsored programme for poverty alternation, subsidy credit linked programme for asset creation, and identification of poor by government agency, emphasis on development of women and children in rural areas target-oriented includes both farm and non farm sector activities.

### Origin of self help groups

The origin of Self Help Groups (SHGs) is from Grameen Bank of Bangladesh which was funded by Prof. Mohammed Yunus of Chittangong University in 1975. This was exclusively established for the poor. The rural poor people who are not covered by the institutional sources of credit because they have too few assets worthy of mention. Such poor people in general rural poor in particular have come to organize themselves in to Self Help Groups (SHGs) with active involvement of voluntary agencies.

### Concept of Self Help Groups

The term SHGs is used to describe groups of people in different contexts. In the Indian context, a SHG can be defined a "homogeneous affinity group of rural poor, voluntarily formed to save small amounts out of their emergent credit needs and revolving their resources among members, both for consumption and production, at such rate of

interest, period of loans and other terms, which group may decided, such groups may be informal and should not have a membership of more than 20, if they were to be unregistered.<sup>13</sup>.

### Characteristics of SHGs

- Create a common funds by contributing their small savings/.
- Transparency in operations.
- Intimated knowledge of each other' intrinsic strengths, needs and problems
- Have a common fund
- Have simple and responsive rules
- Collective decision making
- Market driven rates of interest and as decided by the group
- External interference kept to the least.
- Loan request are considered by groups
- Loaning is mainly on the basis of mutual need to the rural poor without any tangible security.

### Strategies for Sustainability of SHGs

Sustainability of SHGs is possible with the application of information and communication technology for removal of various barriers in smooth functioning of groups which are intended for gender empowerment. It would facilitate articulation of rural poor at the grassroots of their experience, concern and perception. It provides necessary information and insight to transform them into active conscious and confident participants in the sustainability of SHGs.



## Objective of the Study

The essential objective of the research is to offer a deep, relevant and meaningful study of Micro-Finance and Micro-Finance Organisation especially in Kumaun, with the help of available information, collection, classification, tabulation, analysis and interpretation of data.

In the research I will analysis the social and economical aspect of Micro-finance in India, especially in the fields of financial self sustainability poverty alleviation employment etc. The study objects can be categories as following segment.

- To examine the scope of Micro-finance in India, in the fields of poverty alleviation, employment generation and financial sustainability for huge mass.
- To search how Micro-Finance organization function, generate their resources (Human and Financial Resources and how can they utilized their resources for the welfare of society.
- To examine and analysis the function of Micro-finance organizations in Kumaun, especially in the fields of sustainable finance, employment and poverty alleviation.
- Government policy towards Micro-Finance in India.
- To assess the achievements and draw backs of Micro Finance Organizations in India and also assess the future prospects of Micro-Finance organization in social and economic fields.
- To suggest workable, practical, genuine solution to resolve the various problems of M.F.O's.

## Hypothesis

After independence the first commitment of our nation was welfare of the poor and weaker section of society. That's way "Justice Social, Economic, and Political have been kept as the first objective in the preamble of the constitution. This is very unfortunate after a long time of independence there are limited access to assets and opportunities for huge mass. The problem of unemployment and deep-seated poverty is yet to be solved presently in India 26% population is below poverty line and struggling for their basic needs of living hood. In India there are various response for this deep rooted poverty. The main causes of poverty are week capital base, lake of credit facilitates, unemployment, low income, low savings and low investment. If we deeply pursuit than we find poverty and unemployment are two aspect of one coin. If we are able to remove the problem of unemployment than the graph of poverty is deteriorate. If we are able to provide better financial assistance, vocational assistance with better financial supervision, large member of people find out there own way out of poverty.

In modern age Micro-finance grow to be just like a tool to alleviate the poverty and unemployment with the help of Micro-finance we are looking forward to solve these problems.

## Review of Literature

There is no standard criteria available for poverty alleviation programmes but in the last few years Micro-finance become the important tool for poverty alleviation programmes. Presently micro finance sector become global and so existing especially in the fields of sustainable finance, self-employment, poverty alleviation and social empowerment.

In the field of Micro-finance there is rich collation of literature available, in which remarkable work done by Micro-finance organizations especially in the social economic fields.

According to my knowledge this is first time that I would doing research work in this topic. "The Role of M.F. in sustainable finance employment and poverty alleviation". The purpose research work would be done by with the help of available M.F. Literature. (All Publications and related Websites). The proposed research work would be found out the social economic impact of M.F. in our society.

Limitation of the study- The study suffers from various limitations as given below.

- (i) The official attitude of some NGOs Micro-finance Institutes and some individuals was not quite supportive at many levels.
- (ii) Illiteracy is the main factor responsible for limitation. During the field survey of SHGs researcher feels that members of SHGs face difficulty in understanding the questions and answering them.

- (iii) Some beneficiaries of Micro finance could not be included in the sample because of their inaccessibility as they were to located in very remote area.
- (iv) The researcher had to face serious problems in the collection of field data because proper records were not maintained by some NGOs.
- (v) Since this is the first evaluator study of Micro-finance in Kumaun. That's way sizeable and systematic data were not available in some NGOs.

Therefore, the conclusions may have their own limitations Micro-finance is a tool of poverty alleviation but it work only when we are able to use this tool in proper way. That's way government has to make a visible policy to developed Micro finance, in our country.

This study is undertaken from the NGOs and MFIs which work for Micro-finance in the Kumaun Region. In Kumaun there are NGOs an MFOs works in the field of Micro-Finance. That's way the availability of primary and secondary data is limited as a result this study is limited to some NGOs and MFOs.

## Research Methodology

Before emphasizing research methodology, it initial took consider few important points of research. According to the Websiter's international dictionary research is "A careful enquiry or examination in seeking facts or principles diligent investigation in order to a certain something." Research, in general is taken as search of knowledge.

Once the problems has been defined and research objective identified the next step is to develop research design. Research design is the basic form, which provides guideline for the rest of the research process. It is a map or blue print according to which the research is to be conducted.

Research design specifying the methods for data collection and data analysis in this process we have to find out solution for following problems.

- How data would be collected
- Which tools would be used for data collection?
- What sampling plan would be used for data collection?

## Research Methods

A descriptive study aimed at empirical examination and analysis of the stated problem. It will use mainly two methods.

- The survey method: A survey of a selected sample groups of Micro Finance Organizations in Kumaun.
- Content Analysis: Secondary data will be collected with the help of related Government and Non Government

Organizations, publication and all available sources, Journal and Websites etc.

The study will also involve comparative studies of the selected sample group with other groups.

The sample: The scope of proposed research work is very wide it covers the Six Districts of Kumaun, Nainital, Almora, Udham Singh Nagar, Bageshwar, Champawat and Pithoragarh. I would take a selected sample of approximately fifty individuals in each district of Kumaun. Total members of samples taken by me in six districts would be following.

$50 \times 6 = 300$  individuals in six districts

### Methods data Collection

- Interviews recorded on tape: This is to be the chief method of data collection. Interviews will be supplemented by questionnaires. Will be in the close form and personally administered.
- Content or Document analysis will also be used as a source.

### Method of data analysis

This study will involve both qualitative and quantitative analysis of collected data. Quantitative analysis will involve statistical analysis, especially descriptive statistics (involving a particular Micro-Finance organization). Beginning with tabulation of data and grouping in to class- intervals, measurement of central tendencies; it will also involve cross- tabulation.

No research has been done on this topic in the past. This study is the first of its kind scholars who have been involve in self help groups or micro finance organizations in this region have not attempted any study in this topic.

## Chapter Planning

The Chapter are tentatively divided as follows-

- (i) Introduction to Micro-finance
- (ii) Micro-finance organizations in Kumaun.
- (iii) The role of Micro-finance in the fields of sustainable finance, employment, and poverty alleviation in Kumaun.
- (iv) The growth trends and government policy regarding to Micro-finance organizations in Kumaun.
- (v) Problems and prospective in the growth of Micro-finance in Kumaun.
- (vi) Conclusion.

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## Chapter 2

### Micro-Finance Organization in Kumaun

#### Micro-Finance in International Scenario

Informal credit and SHGs are important part of credit markets in developing countries. SHGs and Micro-finance organ play a significant role in challenging credit to the poorer sections of society and assist in generating employment, challenging sustainable finance, income and output.

It may be recalled that the role of micro-credit in the eradication of poverty was stressed by the United Nations in agreed conclusions 1997/1 adopted by the Economic and Social council on 25<sup>th</sup> July 1997, in which the council called for strengthening the institutions supportive of micro-credit and recognized the importance of access of micro-credit of people living in poverty to enable them to undertake self-employment and contribute to achieving empowerment, especially poor and women.

“The momentum generated by the major UN conferences and summits, particularly the world summit for social Development and the fourth world conference on women inspired the holding of the micro-credit summit in Washington in 1997 which through its Declaration and plan of action launched a nine year global campaign to reach 100 million of the world’s poorest families and especially the women in those families with credit for self-employment and other financial and

business services by the year 2005. The latest data show that the number of poor people who benefited from micro-credit programmes grew from 7.6 million in 1997 to 26.8 million by the end of 2001.

In this context, India's performance has been the most unsatisfactory, despite India has world's large number of poor and Rural Finance Intermediaries are quite capable and their capacity can be enhanced), if they demonstrate their willingness and commitment in this area.

United Nations proposes to declare year of Micro-credit focusing on following areas-

- Assessment and promotion of the contribution of micro credit and micro-finance towards achieving the goals as contained in millennium Development Goals (MDG), particularly targets related to helping the proportion of the people living in extreme poverty by 2015, and promoting gender equality and empowerment of women.
- Promotion of awareness and understanding of micro-credit and micro-finance, their role in poverty eradication including achieving the MDG and how they empower people and contribute to communities.
- Identification of critical measures for government to optimally stimulate sustainable, pro-poor financial sectors and build collective visions and strategies that position micro-credit and micro-finance as integral part of a country's financial system.
- Increase of the capacity of the micro-credit and micro finance service providers to be more effective and efficient at addressing

the needs of poor and very poor people, and strengthening institutions by following good practice micro-credit and micro-finance principles. As on March 2002, there were as many as 32,481 rural branches covering all villages in the country, However, the disbursement of micro-credit worked out to only Rs. 630214 per branch catering to only 22 SHGs while there is on dearth of financial resources as well as problem of repayment under micro-credit programme, there is need for well organized and committed Micro-finance Institutes through which the credit can be channeled and made available to poor house holds individually or in groups in India so as to create following impact through 32481 rural branches during the international year of micro-credit.

- Sound micro-finance is having a positive impact on the lives of poor people, improving their household incomes, building assets and safeguarding them against vulnerability origins from economic and other crises, through savings, credit, insurance and other financial vehicles.
- Evidence from micro-finance programmes demonstrates that access to financial services enables poor people to improve their health, nutrition, education, and school enrolment of their children.
- Financial services also help to improve the stability and growth of micro-enterprises.<sup>1</sup>

Formal financial sector has failed to fulfill the financial need of poor because government credit schemes do not cover the large percentage of population. The provision of sustainable finance and savings have been recognized as an essential element for financial and credit sector. In developing countries most of poverty alleviation programmes have failed, because these poverty alleviation programmes do not cover the expected percentage of poor population. NGO's and MFO's innovative efforts held out fresh hopes for poor people. One such effort is the formation of MFO's for enabling the poor to participation the process of development.

It has been functional in countries like Bangladesh Malaysia, Korea and Indonesia. In Bangladesh, the MFO's and SHG's approach has stabilized into a national programme and has shown remarkable results in development and poverty alleviation. In India, this approach has been extensively used by SEWA movement and NGO's for a long time.

### Origin of Grameen Bank

"The Grameen Bank owns its origin to the concern felt by into founder, Dr. Mohammed Yunus, at the pitiable condition of landless women labourers, who were exploited both by their masters and in their own families. Dr. Yunus felt that if these women could work for themselves instead of working for others, they could retain much of the surplus generated by their labours, currently appropriated by others and benefit their families for these funds were required to improve their economic conditions through self-employment without government or external assistance or subsidies. The guiding concept was that the poor know best how to improve their economic conditions

provided adequate credit was made available. The translation of this simple idea into practice gave birth to an imaginative project, which has grown to attract world wide appreciation by others.

The initial scheme was started as a village credit society in December 1976 in Jobra, a village adjacent to Chittagong University, where Dr. Yunus was a teacher in economic. At first, credit arrangements were made with one of the nearby banks and the Economic programme to the Chittagong University under the leadership of Dr. Yunus. The success of the experiment evoked interest among more banks. In June 1979, the central bank of the country, the Bangladesh Bank stepped in and organized sponsorships from several nationalized commercial banks for extension of the scheme to more areas. In 1980, the project caught international attention and financial aid started flowing in from different donor institutions like International Fund for Agricultural Development (IFAD) and Ford Foundation.<sup>2</sup>

### Sixteen Decisions Programme of the Grameen Bank

- The four principals of Grameen Bank- discipline, Unity, courage and hard work- we shall follow and advance in all walks of our lives.
- We shall educate our children and ensure that they can earn enough to pay for their education.
- We shall bring prosperity to our families.
- We shall keep our children and the environment clean.
- We shall not be in dilapidated houses. We shall repair our houses and work towards constructing new houses as soon as possible.

- We shall build and use pit latrines.
- We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
- During the planting season, we shall plant as many seedlings so as possible.
- We shall drink tube well water; if it is not available we shall boil water.
- We shall not inflict any injustice on anyone; neither shall we allow anyone to do so.
- We shall not take any dowry in our sons' weddings neither shall we give any dowry in our daughters' weddings
- We shall keep the centre free from the curse of dowry
- We shall not practice child
- For higher income, we shall collectively undertake bigger investments
- If we come to know of any breach of discipline in any centre, we shall all go there and restore discipline.
- We shall always be ready to help each other. If anyone is in difficulty, we shall all help.
- We shall introduce physical exercise in all over centres.
- We shall take part in all social activities collectively.

### Organisational Structure of the Grameen Bank

Grameen Bank could undertake any type of banking activity, except foreign exchange business. There is very little control of

Banladesh central bank over the Grameen bank that way Bank is free from operational limitations.

At the end of December 1988, its authorized capital was taka 10 crore consisting of 10 taka ordinary shares of taka (t.k.) 100 each. The paid up capital is taka (t.k.) 150 million, 12 percent is held by the Government of Bangladesh, and the remaining 88 per cent by the Grammen Banks borrowers themselves. In a sense, therefore, the Grameen bank is a cooperative venture but outside the purview of the cooperative Societies Act as well of the 12 members on its board of directors, the chairman, managing directors, and six other members are appointed by the government while the remaining four are elected by borrowers. Eight of the 12 directors as at the end of December 1988 were women. It is claimed that this structure protects the bank from irrational decisions; however, it is felt that the borrower board members play a passive role in approving policy decisions. (taka is the Bangladeshi currency)

The affairs of the bank are controlled by its head office. The lower tiers are zonal offices, area offices, and branches. The borrowers at the branch level are formed into Groups, each groups consisting of five members. Six such groups federate into a 'centre'. The field staffs at the branch are designated 6 centers or approximately 200 borrowers under his charges. Expansions in new districts are effective due to the methodical replication of this technique. A new branch is opened in a village adjacent to an existing branch and expands its staff strength as and when the number of members and centers increase. As the number of such branches increase, an area office would be opened

and as area offices increase a new zonal office would be opened. Management capacity is continuously adjusted to the growth pattern.

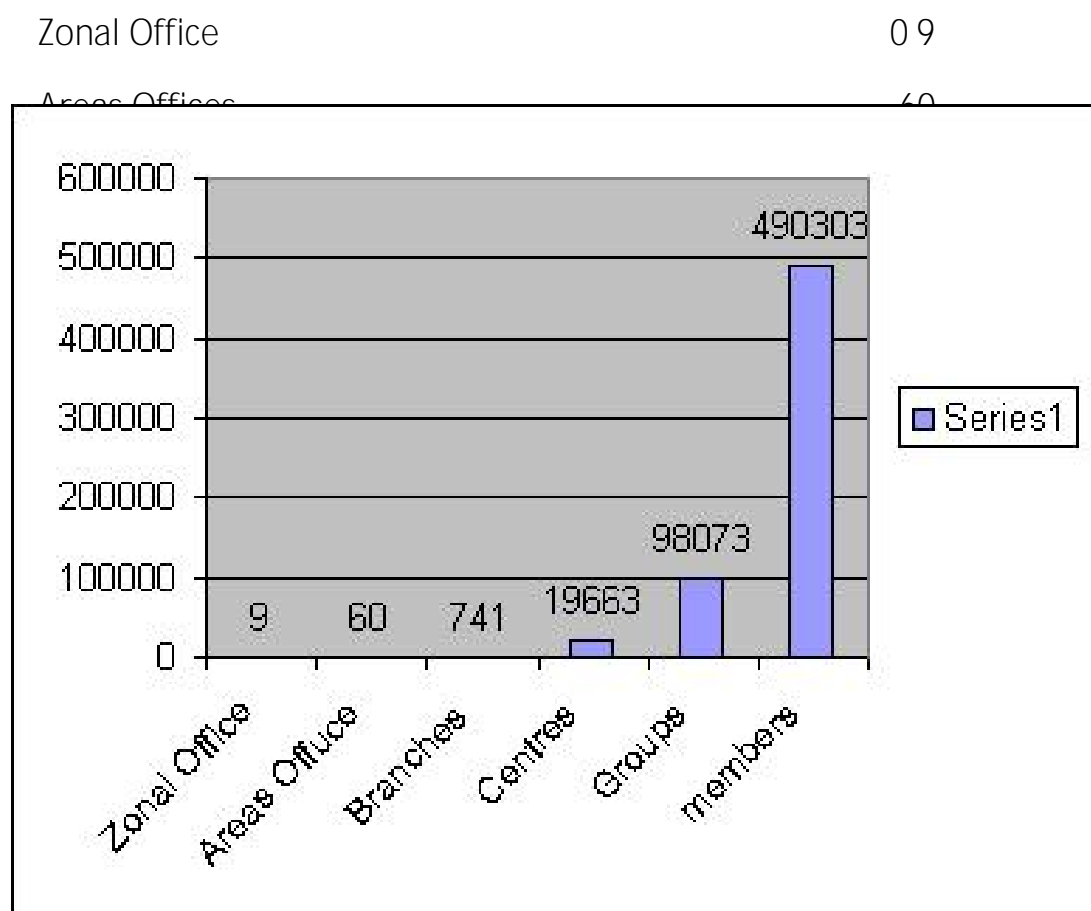
During the early stages, all major decisions were taken by the managing director. However, with the proposal to have 14 zonal offices by 1992 and to avoid too many senior staff reporting directly to the managing director, decentralization has been effectively introduced. Day-to-day banking operations have been delegated to the zonal office would be opened. Management capacity is continuously adjusted to the growth pattern.

During the early stages, all major divisions were taken by the managing director. However, with the proposal to have 14 zonal offices by 1992 and to avoid too many senior staff reporting directly to the managing director, decentralization has been effectively introduced. Day-to-day banking operations have been delegated to the zonal offices. The present management structure ensures that the zonal manager is the crucial element in the administration and management of the bank and has a wide range of responsibilities for the area and branch offices within his jurisdiction, and also for expanding the bank's operation. A zone has about 10 area offices. Though the Grameen bank staff increased from 2601 in October 1986 to 3748 in December 1987, the percentage of staff at the head office decreased from 14 percent to 10 percent as only 8 staff members were added to the staff strength of 354. The number of branches increased by 100 over the same period but the percentage of staff at the zonal and area official offices remained unchanged at 5 percent and 7 percent, respectively, and the ratio of members to staff at 90:1. There are 1300 staff members and the average age of the staff member is 22. Each area office looks after 10 branches and is a small office involved after 10 branches and is a small office involved in the supervision of the branches. The bank's programmes are implemented by the branches, which are responsible for the mobilization, supervision, and development of the bank's



clientele. On in average, each branch is responsible for around 40 centres with each centre having two to six groups.

The organizational structure of Grameen Bank (as on December 1988) is given below.



### Organizational structure of Grameen Bank

In June 1992, the bank's lending operations covered 12 lakh members in 28,215 villages out of 68,000 villages in the country) through 961 branches. The bank is operating in 39 of the 64 districts in the country.

## Kind of Loans

The credit programme of the bank consists of four different kinds of loans. The principle of Grameen bank is 'The bank will go to the client; the client will not come to the bank.' The four kinds of loans are given below.

- (i) General loan- Credit given for various economic activities that provide self employment and generate income are classified as general loans. A special feature of such loans is that the bank never gives a list of activities for which it gives credit.
- (ii) Joint Venture- Joint venture loans are given to groups of borrowers and not to individuals, for purposes which require large investment. There included leasing of land and banana plantations, rice mills etc.
- (iii) Housing Loan- One of the 16 decisions adopted by members of the Grameen bank is that would not live in dilapidated houses and work towards building their own houses. To this end, the bank provides loans to its members. It also supplies materials such as roofing's, concrete pillars, slabs for pit latrines, etc. at cost price.
- (iv) Technology loan- Technology loans involve sizeable investment. There loans are, therefore, given to groups of members or to the centers which own the assets for the common benefit of the members. Rice mills, machinery, deep tube wells, etc. falls under this category. Such loans are, however, very few in numbers.

The Bangladesh Grameen bank has a unique approach to providing credit the poor. It imposes a strict discipline on the borrowers as well as bank staff. The management also services the poorest of the poor in the rural areas who would, otherwise, have not been eligible for credit from other institutions. By virtue of peer on, the grameen bank has achieved a repayment record in area in which most other credit schemes fail. An elaborate system of discipline and supervision is incorporated into loan procedures and characterizes its credit operations as well as related social development activities. Individually, the procedures may not be significant but together they constitute a formidable system.

The Grameen bank recognizes that the poorest in rural areas are not only the farmers but landless, who are also excluded from the traditional rural credit projects designed for farmers and requiring collateral. The asset less/landless have been targeted by the Grameen bank as its borrowers as they are a major productive resource in Bangladesh that has been under utilized. However the landless lack the basic skills to take up non-traditional activities. The Grammen bank tries to improve upon skills and productivity by testing appropriate strategies and providing suitable training on improved technologies.<sup>3</sup>

Micro-Finance organization (MFOs) use groups system to distribute their services to their clients. Mainly there are two models of providing micro finance services to poor people. One model is Grameen Model, this model is dominated in Bangladesh where it has been widely initiated by a range of large and small MFOs.

The second model of Micro-finance organizations is SHG Model there is a group of up to 20 members. The group formation process

may be facilitated by a non governmental organization (NGO) or by the MFO or bank itself. There are some advantages and disadvantages of both models. Both models are differing in many fundamental respects, which have important implications for their clients and for the organizations which use them.

## The Grameen Model

In Grameen Model there are five members in every group around five to seven groups organized into centres. The group members make regular savings with the MFO according to a fixed compulsory schedule, they also take regular loans. In this model every member has an individual saving and loan accounts with the MFO. The main function of the group's centers is to facilitate the financial intermediation to the MFO members. Through performing tasks such as-

- Holding regular and usually weekly meetings which are supervised by on MFO worker, where savings and repayments are collected and handed over to the MFO worker who maintains the records.
- Organizing contributions to one or a member of group savings funds, which can be used by the group for a member of purposes, usually only with the agreement of the MFO which maintains the group fund accounts.
- Generating loans to their individual members by accepting joint and several liability, by raising group emergency funds and by

accepting that no member of a group will be able to take a new loan if any members are in arrears; and

- Arising from the above, appraising bellow members loan applications and ensuring their bellow members maintain their regular savings contributions and loan repayment".<sup>4</sup>

## The SHG System

The members from a group of up to 20 members. The group formation process may be facilitated by a non-governmental organization (NGO) or by the MFO or bank itself the performing tasks of SHGs are following.

- The S.H.G. members decide to make regular savings contributions. These may be kept by their elected head, in cash, or in kind, or they may be banked.
- The members start to borrow individually from the SHG, for purposes, on terms and at interest rates decided by the group itself.
- The SHG opens a savings account, in the group's name, with the MFO or bank, for funds that are not needed by members, or in order to qualify for a loan from the bank.
- The MFO bank makes a loan to the SHG, in the name of the group, which is then used by the group to supplement its own funds for on lending to its members.
- In SHG's Model members have their accounts with the SHG, not with the MFO or bank, and the MFO or bank does not have any direct dealings with the members. The MFO or bank may assist

the SHG in record-keeping; they may also demand to know who the members are and impose certain conditions on the uses of the loan which they make to the SHG.<sup>5</sup>

- Self-help groups are flexible if any one wants to be a member of SHG he/she will easily become the member of self-help groups.
- Self-help groups provide easy, timely, and adequate financial services for his clients.
- In SHG system every member has two accounts one for savings and another for borrowings as needed.
- In SHG model we can say that SHG are willing to provide full range of bank services.

### Difference between SHG and Grameen System

- In Grameen Model no need for members, initiative and no need of literacy.
- In Grameen Model members are fully protected from internal and external exploiters.
- In this model no need of asses for membership that's way this model is beneficial for poorer people.
- Bank is able to give good and sustainable financial services to his clients.
- Bank is work for over Socio-economic empowerment for his members.<sup>6</sup>

### SHG Model

- SHGs are successful and feasible in India, because of lower transaction costs.
- SHGs Model is successful because it works in rural India, where this model works well.
- In SHG model there are two accounts of every member one is for savings and another for loans, this system made savings and mobilisation easier.

### Why Grameen in Bangladesh and SHG System in India

The poor people in India are not so different from their counterparts in Bangladesh that was the main reason, such different systems have evolved. Bangladesh has less experience of democracy than India, its people are used to military governments, and less individualist. Bangladeshi village people are more socially and economically homogenous, that's way it is easy for Bangladesh Grameen Bank to follow a standardized and pre-set schedule for work.

In India around 70,000 branches are already works in rural areas. The main aim of rural formal financial sector is providing financial services to the rural people. For this SHG linkage system is ideal for banks any SHG's, without making significant changes to its operating procedure. NABARD in India successfully marketing the SHG linkage system. "During the financial year 2000-2001, NABARD organized 3200 training courses on SHG linkage, with 166000 participants (NABARD, personal Communication).<sup>8</sup>

### SEWA Bank, A Brief History of Sewa

Sewa (Shri Mahila Sewa Sahkari Bank) was established in 1974 in Ahmedabad, the principality in the state of Gujrat, on the western coast of India. Mahandas Karamchand Gandhi settled in the banks of Sabarmati river, Gandhiji used Sabarmati Ashram as a base to struggle against British Empire, Gandhiji began his Great Salt march from the Sabarmati Ashram. Gandhiji also left his mark in Ahmedabad as one of the founding forces behind the Textile Labor Association (TLA) One of the first labor unions in India. The TLA had its beginning in the plague epidemic of 1920. In 1955, a young lawyer named Ela Bhatt joined TLA and in 1968 Ela Bhatt had aware that these women were in need of much more than what the TLA was then offering. Then Ela Bhatt established SEWA Bank in 1974 by 4000 members. SEWA became a branch of TLA, with the leadership of the TLA assuring the leadership of SEWA as well. The SEWA movement is committed to addressing a wide range of needs of its members. The SEWA 10 points are given below.

1. Increased women's employment opportunities.
2. Increased members Income.
3. Increased member's access to nutrition.
4. Improved their access to health Services.
5. Increased their access to child care.
6. Increased member's ownership of assets.
7. Improve their housing, water, and sanitation.
8. Strengthened the organization and building leadership.
9. Strengthened the Women's leadership.
10. Increased their self-reliance.



Today over 200000 members are registered in SEWA movement in Ahmedabad, rural Gujarat and elsewhere in India. SEWA members are categorized into the following three groups.

- (i) Manual labourers and service providers like construction workers, domestic workers Agricultural labourers and paper pickers.
- (ii) Hawkers and vendors like small shopkeepers, vegetable and fruit vendors, huge hold goods and clothes vendors.
- (iii) Home-based workers like carpenters, candle makers, artisans, garment workers, and labourers who process a agriculture products and produce.

In India 93 percent of workforce is in the informal or unorganized sector, a union for such workers, especially women, was deemed essential to fight for their economic rights. SEWA Bank is a mission for poor women and work for providing at least a minimum level of social and economic security. SEWA Bank is not just a provider of Micro-credit for women. Its mission is to assist poor self-employed women in their overall struggle to live a life of dignity and self esteem.

"Sewa Bank is infact a cooperative bank owned by 3000 women holding over Rs. 1.1 crore (11 million) in shares, who elect a board of 15 directors each representing members in a different trade. SEWA Bank has always focused more on savings products then micro-loans, and had close to 120000 depositors at the end of 2001.<sup>9</sup>

### Role of Savings

Sewa movement believes that self-employed women are often trapped in a vicious cycle of poverty because they have very low

income as a result they have no capital to invest in business that's way they are not able to enhance there income. Micro-credit play a important role to solve the problem of poverty. Savings can contribute in many ways to enhancing its members security Savings build members capital for consumption, emergencies, and investment and protect than against borrowing from moneylenders. SEWA movement also helps to secure women's money by savings.

"Sewa bank supports 1600 savings and credit groups SHGs with 2800 members in rural Gujarat each group deposits its members savings in one common account at the Bank".<sup>10</sup>

## Role of Loans

In India lack of financial assistance proper credit facilities are the major hurdles in removing poverty and generating employment for huge mass. The demand of proper, easy, and adequate financial service is the need of time. The main causes of poverty are lack of financial assistance and lack of employment, with the help of Micro-finance we are able to generate employment, and break the vicious cycle of poverty, in the field of Micro-credit SEWA Bank has done some remarkable work.

"At the end of 2001 Sewa bank had Rs. 10 crore (100 million) in outstanding loans to some 33000 women of this, half outstanding for working capital (33 percent) for flexible credit by many women to sustain their micro-businesses and their household expenditure through periods of fluctuating incomes or lumpy expenditures."<sup>11</sup>

Sewa Bank most successfully developed the micro financial products SEWA integrated micro-finance Services into a coherent

development framework to lift poor people out of poverty; first enabling them to get out of debt and build their savings until gradually they build their assets both at home and in their business. Sewa protect his members from the loss of assets, and help their members for savings and emergency loans.

So, at last we can say Sewa Bank provides numbers of services including savings, insurance and Credit. SEWA help to fulfill the needs of poor people. Such services are particularly important for protecting poor people against the often severe consequences of fluctuating incomes emergency expenditures, ill health, disability, or death, and the costs of extortionate credit.

The expansion of the formal credit delivery system since 1947 has not changed the dependence of the poor on money lenders and commission agents/traders. The population per branch ratio has been brought down from 65,000 in 1969 to 12000 in 1992. But this impressive growth in branch network has been uneven; in many areas, there are no branches within 10-20 km. Given the poor rural transport system, day to day banking costs for borrowers and bankers are also been excluded from bank services.

This appears to have led voluntary organizations to promote the formation of informal groups and encourage them to save small amounts for their future needs. The outcome has been the evolution of various methods of organizing, collecting, managing and utilization of funds that are collected largely by the poor themselves.

The seventh five-year plan (1985-90) had emphasized the need to closely associate NGOs with rural development programmes, poverty alleviation programmes.<sup>12</sup>

Central Government wants to regulate the micro finance institutions, and plan for bring out legislation for MFO's in India. Despite the vast expansion of formal credit system the dependence of the poor on informal finance still continues such a situation has arisen mainly due to the following problems.

- Formal sector financing institutions are unable to serve the masses carrying out micro-enterprises as a result the programme of unemployment and poverty still has to solve.
- Credit programmes without including the habit of savings amongst the poor do not help development of repayment ethics.
- Financing micro-enterprises involves high transaction costs both for lenders and borrowers.
- Many of the existing programmes run by Government institutions are not tailored to the needs of the rural poor;
- Necessary linkages-infrastructure, skills, market are often absent.
- Many of the programmes are not tailored to the needs of the rural poor; and
- The culture of subsidy encourages a patron-client relationship and does not poster credit discipline.

In view of the above situation, there is a felt need to evolve innovative financial intermediation from the belief that the poor have productive potential and they can use credit effectively for their own

well being, the SHG concept has evolved as the poor have demonstrated their potential through self-help. Micro finance org are voluntary associations of people who are homogeneous in terms of source- economic background or traditional occupation. The main objectives are-

- To save small amount regularly and the consumption/ productive credit needs of the poor have to be met.
- To mutually agree to contribute to a common fund and have collective decision-making.
- To provide easy, timely and sustainable finance for micro enterprise.
- To resolve conflicts through collective leadership and mutual discussion.

## Micro-Finance in India

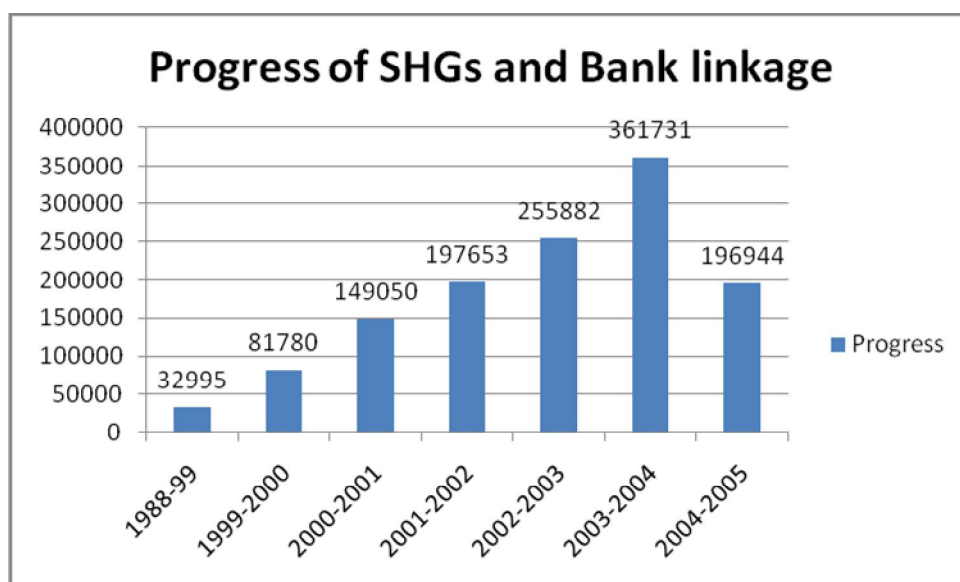
The programme of linkage of banking self-help group (SHGs) of the rural poor with the banking system was launched as a pilot project in 1992. Over the year the SHG bank linkage programme in the country 560 banks including 48 commercial banks, 196 RRB's and 316 co-operative banks are now actively involved in the operation of this programme. The programme has been providing the rural poor access to the formal banking system and has achieved several milestones in terms of gender sensitization and empowerment and poverty lessening. The programme provides thrift linked credit support to the members of SHGs while the programme directly benefits the members, it also helps banks in reducing their transactions costs as well as risks in delivering small loans. The budget for 2004-2005 has emphasized the need for promoting the programme more vigorously and for the

graduation of SHGs from consumption or production credit an indicative target of credit linking 5.58 lakh SHGs by end March, 2007.

Table 2  
Progress of SHGs and bank linkage Total SHGs Financed

	During the year			During the year		Cumulative
	Amt (Number)	% Growth	Cumulative Number	Amt. (Rs. crore)	% Growth	(Rs Crore)
1988-99	32995		32995	57		57
1999-2000	81780	148	14775	136	138	193
2000-2001	149050	82	263825	288	112	481
2001-2002	197653	33	461478	595	89	1026
2002-2003	255882	29	717360	1022	87	2049
2003-2004	361731	41	1079091	1856	81	3904
2004-2005	196944		1276025	1134		5038

Source- Economic Survey (Government of India) 2004-2005.



The member of SHGs linked to banks reached 10.79 lakh by March 21, 2004 covering an estimated 167 lakh poor families. A redeeming feature of the programme is that 90% of the groups linked with banks are exclusively women groups. Cumulative disbursements of

banks loans to these SHGs amended to Rs. 3904 crore at end March, 2004 with an average loan of Rs. 36179 per SHG and Rs. 2412 per family. Refinance support extended by NABARD amounted to Rs. 2,550 crore. During the current year (up to December 31, 2004), 1.79 lakh new SHGs were provided with bank loans amounting to Rs. 1,134 crore.

Source: Economic Survey (Government of India) 2004-05

Table 3

Bank Linkage Programme-Fact Sheet March 2001 to March 2006

	March 2001	March 2002	March 2003	March 2004	March 2005	March 2006
during the	149050	197653	225882	161731	539365	620109
linked with	263850	461478	717360	1079091	1618456	2238565
eat bank	NA	41413	102391	171669	258092	344502
	90	90				
	314	444	505	560	573	547
	43	44	48	48	47	47
	177	191	192	196	196	158
	94	209	265	316	330	342
	412	488	502	563	872	583



<p>the</p> <p>d by Banks</p> <p>d formal</p> <p>nced by</p> <p>nrough</p>	16%	13%	20%	20%	21%	20%
	76%	75%	72%	72%	72%	74%
	11%	9%	8%	8	7%	6%

in India 2005-06

A pilot project for running micro-credit by involving Self Help Groups (SHGs) with banks was launched by NABARD in 1991-1992. The members of SHG credit linked to banks aggregated 149050 as on March 2001. This SHG credit linked number increased 620109 SHGs as on March 2006. Cumulative No. of SHG credit linked with bank in 2001 was 263825 and in 2006 is 2238565. This data reveals good progress in Bank Linkage in India. The table reveals that 90 percent of the groups linked with NABARD are exclusive women groups. In India cumulative disbursement of bank loan to these SHGs stood at Rs. 41413 million on March 31, 2002 and on March 2006. It was Rs 620109 Million. In 2001 412 districts in all the states/UTS has been covered under this programme as on 31 March 2006, 547 districts are covered under this programme.

## Micro-finance Ogranisation in Kumaun

Uttarakhand is a newly created state in the Himalaya. The region falling within this Himalayan state lies between the longitudes of  $77^{\circ} 35' 5''$  -  $81^{\circ} 2' 25''$  E and the latitudes of  $28^{\circ} 43' 45''$  -  $30^{\circ} 8' 10''$  N and encompasses an area of 53066 sq. km. in a larger context, Himalaya within the vast east west expanse of the Himalayan system. The boundaries of all directions except the south are well marked and are more or less natural. While the rivers Tons and Yamuna roughly form the boundary in the north-west between Uttarakhand and Himachal Pradesh, it is separated from Nepal in the east by river Kali, to the north

of the main Himalayan ranges, however, the natural water-parting



Before the creation of a separate state of Uttarakhand, in November, 2000 a major part of the region was made up of light Himalayan districts of Uttar Pradesh and was more or less a separate political unit known as Uttarakhand constituted of two division- i.e. the Garhwal division and Kumaun Division.

Garhwal division including the five western districts of Dehradun, Tehri, Uttarakashi, Chamoli and Pauri while the Kumaun division was made up of the three eastern districts of Pithoragarh, Almora and Nainital. In 1997 the new district of Udham Singh Nagar was carved out by separating a major southern portion of district Nainital with certain other minor changes. The creation of the new state of Uttarakhand, however, witnessed further changes and two new districts were created in Kumaun division viz. Bageshwar and Champawat-regularly

corresponding to the former tehsils of the same name in districts of Almora and Pithoragarh respectively. Similarly in Garhwal division also, the former tehsil of Rudraprayag in district Chamoli come to be known as district Rudraprayag while in the south, the former Haridwar tehsil falling within district Saharanpur was added to the same name.

In this way, the state of Uttarakhand is presently made up of 13 districts- 7 in Garhwal and 6 in the Kumaun divisions a per details presented in Table 11

Table- 4

Uttarakhand : Area and population Statistics

Division	Districts	Area Sq.	Population 2001	No. of Development Blocks
Garhwal	1. Dehradun	3088	1279083	06
	2. Tehri			
	3. Uttarkashi	3796	604608	09
	4. Chamoli			
	5. Rudraprayag	8016	294179	06
	6. Pauri	7521	369198	09
	7. Haridwar			
Kumaun		2439	227461	03
		5230	696851	15
		1941	1444123	06
	8 Pithoragarh	7169	462149	08
	9. Begeshwar	1696	249453	05
	10. Champawat	2004	224461	04
	11. Almora	3689	630446	11
	12. Nainital	3422	762912	08
	13. Udham Singh Nagar	2055	1234548	07
	Total	53066	8479562	97

As revealed by the data for area and population as presented in table 40 percent of the total area of Uttarakhand falls in the six eastern districts of the Kumaun division while the seven western districts are in Garhwal division.

The region has great geo-political significance too the state has a common border with two adjoining nations China and Nepal. The northern boundary in the districts of Uttarkashi, Chamoli, and Pithoragarh marches with that of China, while in the east, the international borders in the districts of Pithoragarh and Champawat separate Uttarakhand from Nepal. The entire northern and eastern border of district Pithoragarh the eastern most district in Uttarakhand. The entire region is, therefore, a politically sensitive area along the northern borders of the country.<sup>13</sup>

Economy of Kumaun: Kumaun is basically a developing Region of Uttarakhand. As the other areas of Uttarakhand Kumaun economy is based on agriculture and with some small commercial activities.

For development of Kumaun economic we make have to concentration on providing financial services for the poor people. The lower and lower middle class of the Kumaun is poor, because of lack proper finance facilities for investment. Due to this reason, a both rural and urban poor person is in great need of capital.

Working population of Kumaun- In a economic working population is directly linked with the social, economical and political development of the region.

Table -5

### Working Population District wise in Kumaun

District	Main Working	Marginal Working	Not Working
Nainital	22269	57203	482689
Almora	205951	87321	337174
Bageshwar	85922	32993	130551
Champawat	56199	33981	134281
U.S. Nagar	298576	94772	840380
Pithoragarh	123987	74680	263482

Source: India Census 2001, WWW. Indiacensus.Net

From the above figures we can say that the working population is high in Nainital, Almora, Champawat and Pithoragarh districts, where a big section of population is engaged in the form of main workers and considerable section as marginal workers.

The main reason for the high percentage of workers in hilly districts is because most of the people here land to cultivate, the educated persons of hilly districts are migrate from the hills for other works in cites and towns. In Udham Singh Nagar and Nainital districts the member of immigrants from other regions is very high; as a result the unemployment rate is high in these districts.

### Male Female Ratio

Male female ratio refers to the number of female per thousand males in the area. The male female ratio affects the social and economical conditions of the area.

“Male female ratio often signifies the economic structure of rural as well as urban area since a high proportion of males would mean a greater number of workers available for economic activity. It may also

throw light into aspects of migration-whether temporary or permanent often manifest in abnormal differences in this ratio.<sup>14</sup>

Table- 6  
The district-wise male female ratio of Kumaun

District	Female Male Ratio
Nainital	906
Almora	1147
Pithoragarh	1031
Champawat	1024
Bageshwar	1110
U.S. Nagar	902

Source: India Census 2001. Indian census.net

The female ratio is higher in Almora, Pithoragarh, Champawat and Bageshwar that are basically hilly districts, where most of the population dwell in the villages.

This shows that these districts are literate about child equality. The bad practices of female child abortion are negligible in hilly districts which is evident from the fact that the ratio in the above districts is much higher than national average. Another reason of high female ratio in hills is that many men from hilly areas have migrated to cities, Plains and other states in search of job, better living but their women are left behind in the villages.

This ratio is lesser in Nainital and U.S. Nagar districts, which have more area in plains.

Sometimes Uttarakhand's economy is also said as 'Many Order Economy' because the migrated males send money to their families through postal money order." <sup>15</sup>

Overall the male female ratio of the Kumaun Division can said to be.

## Distribution of Population in Urban and Rural Areas

Demographically urbanization demonstrates the proportion of population, which resides in cities and towns, mostly the growth of urbanization functions with the rate of industrialization or better economic development diversifies the functions and inspires the rural-urban migration". <sup>16</sup>

Urban areas fulfill the following norms-

1. Those areas where urban local self governments are working or are having cantonments or notified areas.
2. Those which fulfill the following (a) Population is at least 5000 (b) Where more than 75% of male labour is engaged in non Agro works. (c) Where population density is at least 400 people per sq. km 1 B. <sup>17</sup>

Urbanisation is a symbol of development, but brings along with it many problems a housing, transport, crowd, pollution, law and order problems etc. The urban areas of Kumaun division occupy less area which are administrative, educational centres and small business centres majority of the population are Government/Semi Government servants, school children or mostly the business class that has settled here from the villages.



In Kumaun some cities are developing at high pace that include Haldwani, Nainital, Pithoragarh along with trade centres (Mandis) like Kashipur, Rudrapur, Ramnagar, Bajur, Kichha, Khatima etc.

In the recent past it has been observed that many affluent people from the hills are purchasing lands and building houses in urban areas, mainly in the plains of Kumaun. In few years the population of cities has increased enormously. Haldwani is the most populated and developed city of the region with large business prospects.<sup>18</sup>

### Rural and Urban Settlements in Kumaun

Kumaun is a division where most of the population dwells in villages. There is less urban sub urban area in comparison to the rural area. The people in rural areas are mainly in primary sector of occupation.

Table-7  
District-wise villages and Townships

District	Tehsils	Development Blocks	Populated Villages	Township Urban settle
Nainital & U.S. Nagar	8	15	1799	24
Almora and Bageshwar	4	14	3024	4
Pithoragarh & Champawat	6	12	2186	5

Source: U.P. Statistical Clander 1996-97

### Commercial Distribution of Population

The commercial distribution of population has prominent effects on economic development. The commercial distribution of population in three classes is as under –

1. Primary Sector 2. Secondary Sector 3. Tertiary Sector.

Table-8  
Commercial Distribution in Kumaun Region

District	Primary Sector	Secondary Sector	Tertiary Sector
Nainital	79.09	3.34	17.57
Almora	62.87	11.36	25.77
Pithoragarh	75.57	4.18	20.25
Total Kumaun	72.50	6.30	21.20

Source- Statistical Diary Uttarakhand Division State Planning

From analyzing data from the above table, which is of the un-partitioned districts we can conclude that most of the population of Kumaun is engaged in primary sector occupations, supported by the fact that Kumaun division has very high forest cover/land ratio. The servant class and the people engaged in small business are fairly good in number. Persons involved in secondary sector are very few in Kumaun

### Occupation Division in Kumaun

Basically most of the population of Kumaun is engaged in primary sector of occupation, of which a major part live in the villages. There is a big part of population engaged in Government Service and small

business. Many of the young men of the region are serving the Army, this is evident from the fact that the Indian Army has named one of its regiment as 'Kumaun Regiment.

Table-9  
Occupation Division District-wise in Kumaun

S.No.	Occupation category	Nainital	Almora	Pithoragarh	Kumaun
1	Farmers	205052	257368	170754	633174
2	Farm labours	92123	3114	1179	97016
3	Poultry	14551	4684	2632	21867
4	Forestry	1560	935	487	2982
5	Mining	4702	2401	3769	10872
6	Cottage Industry	37624	2992	1899	42515
7	Non Cottage Industry	14291	5854	4049	24194
8	Business & Commerce	41570	11014	8156	60740
9	Transport & Telecom	16371	3499	2310	22180
	Other	70471	44594	36595	15660
	Total	498315	336453	232430	1067200

Source: Census of India (1991 (.P. Series 25 part IIV (i)

It can be seen from the above figures that maximum number of working population in Kumaun is engaged in Agriculture as farmers, tillers or labourers. The farm labourers in Nainital and U.S. Nagar is high in comparison to hilly districts, because the land occupied by some big farmers is very much and the number of immigrants working as labourers is high in these two districts. In hilly villages usually farmers cultivate small area of land themselves. The trade and commerce

occupies second priority among occupations in which Nainital district has 41570 persons (figures are of old Nainital district) As Nainital and Udham Singh Nagar both have good business markets from the beginning, the cottage business occupies third priority amongst occupations. Mining and forestry activities are also practiced by a fairly good number of people here.

In all districts of Kumaun, specially the old Almora and Pithoragarh districts, we can see many Army men/Ex Army men in every village.

Before independence economic activities, industrialization in this area was negligible. After independence the Central Government provided this area with "A" category in districts excluding U.S. Nagar and Plains of Nainital District. District Industry officers and Regional Industry Officers were appointed in each district and Kumaun Commissionery respectively. After some time in centre was appointed and at Commissionery level a joint Director Industry was appointed. As a result industrialization achieved a good pace in Kumaun cottage industries as copper, were promoted well in Almora and Bageshwar, some Industries were started in Bhimtal, Ranibagh, Ramnagar, U.S. Nagar in 80's but unfortunately most of them are closed and some are on the verge of closing. In 1990 the number of rice mills in old Nainital district was 250. The industrial development in hills of Kumaun is poor. So it is a challenge for our policy makers to develop the hilly region of Kumaun.<sup>19</sup>

### Development of Micro Finance in Kumaun division

A strong financial base is essential for the growth of any country's economy. In our country huge mass of population is living below poverty line and only few people have access to credit from the formal financial

sector. The lack of financial assistance and credit facilities are the major hurdles in removing poverty and creating employment for huge masses.

The expansion of the formal credit delivery system since 1947 has not changed the dependence of the poor on money lenders and commission agents/traders.

"The population per branch ratio has been brought down from 65000 in 1969 to 12000 in 1992. But this impressive growth in branch network has been uneven; in many areas, there are no branches within 10-12 km. " Given the poor rural transport system in Kumaun division, day to day banking costs for borrowers and bankers are also being excluded from bank services. That's way there has been a growing interest in the recent past to promote the formation of voluntary organizations and informal groups for the Micro Finance Services and encourage poor people to save small amounts for their future needs.

The expansion and reach of formal finance system in Kumaun division is in the next page.

Table-10

Districts of Kumaun Division	No. of Sample (individual)	Name of Block	No. of Individual who have a saving bank a/c before the membership of SHG		No. of Individual who avail loan from Bank		No. of Individual who avail loan from money lenders
			in %		in %		
Nainital	50		20	40	10	20	30
Almora	50		10	20	7	14	35
Pithoragarh	50		25	50	5	10	40
Champawat	50		15	30	6	12	29
U.S. Nagar	50		30	60	20	40	40
Bageshwar	50		12	24	6	12	35
Total	300		112	37.33	54	18	209

Detail of Loans, and saving bank membership of 300 people from formal finance system

The scope of research work is very wide it course the six districts of Kumaun Division, Nainital, Almora U.S. Nagar, Bageshwar, Champawat and Pithoragarh. For the research work researcher selected sample of fifty individuals in each district of Kumaun Division Total members of samples taken by me in six districts are following  $50 \times 6 = 300$ .

Analytical study of table reflects that formal financial sector is failed to fulfill the financial needs of poor people. The table reflects that out of 300 people in Kumaun division only 112 (37.33) people have a saving bank a/c before the membership of SHG.

The main reason for the week development of the region is lack of capital, without having adequate capital we can not exploit natural resources of the region, capital is needed for the development of agriculture, horticulture and water resources available in the region. The table reflects that in Kumaun Division the No. of Individual who avail loan from money lenders is very high it is approximately 70%. Out of 300 individuals only 18% of individual avail loan from the formal financial sector.

After joining SHG 70.6% of members avail inter loan from SHG and the return rate of loan is 98% it is very good.

## Micro Finance in Kumaun Case Study of Kumaun Sewa Samiti of Udham Singh Nagar (A NGO works in the field of Micro Finance )

The concept of Poor people credit was born the insistence by women oriented studies that highlighted the discrimination and struggle of women in having access to credit. In Kumaun MFO are in developing stage. There are some NGOs are involved in the field of Micro credit and savings the main objectives of these NGOs are following-

- The promote financial sustainability to the poor people
- To promote people for making SHGs
- To mobilize funds from formal financial institutions to meet the larger credit needs of its members.
- To promote unity among SHG members to give them collective identity for collective action.

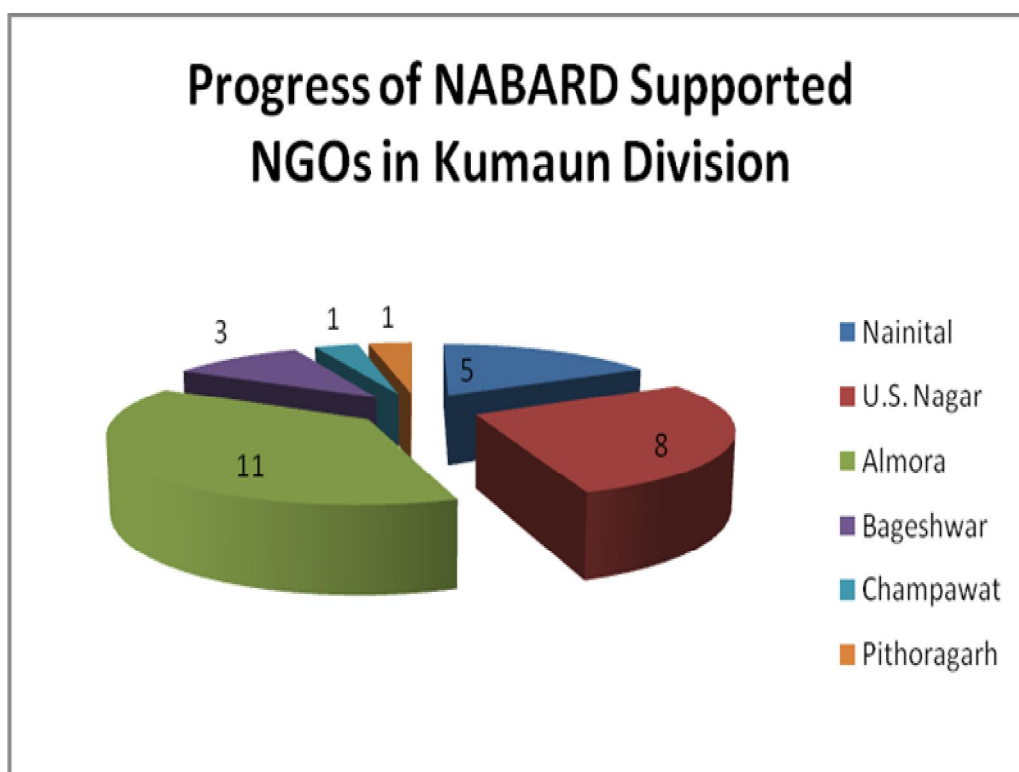
Table-11  
Progress of NABARD Supported NGOs in Kumaun Division,  
March 2006

S. No.	Name of District	No. of NABARD Support NGOs
1	Nainital	5
2	U.S. Nagar	8
3	Almora	11
4	Bageshwar	03
5	Champawat	01
6	Pithoragarh	01
	Total	29



From the district wise table it can be concluded that in Almora District there is a good progress of NGOs. In Kumaun division 29 NGOs works with NABARD but in Pithoragarh, Champawat, Nainital and Bageshwar there are tremendous opportunities for Micro-Finance.

In Uttarakhand over all performance of NABARD can be said quite satisfactory but there is a grate scope of Micro- Finance in Kumaun.



## The Kumaun Sewa Samiti, Udham Singh Nagar

The Kumaun Sewa Samiti was established in 1998-99 in Sitarganj, District Udham Singh Nagar. The activities and programmes of Kumaun Sewa Samiti were designed for the development of poor women of district Udham Singh Nagar. In this Region has a high percentage of population directly involved in farming. The rapid growth of population has aggravated poverty and Unemployment in this region. In this region rural poor were not involved from the stage of planning to the stage of implementation as a result the problem of unemployment and unsustainable finance yet to solve in this region of Kumaun.

### Formation of SHGs under the Swayam Siddha Pariyojna by Kumaun Sewa Samiti Case Study

Under Saurayam Siddha Pariyojna, KSS started formation of women SHG in Sitarganj district U.S. Nagar. Kumaun Sewa Samiti has initiated for formation of SHGs successfully. There is a real and active participation of members in SHGs. SHGs members meet on one day in the week and attendance of members is very high (groups have promoted saving habit in more then one way. SHGs members not only save the money but also give inter loons to SHG members and withdrawals before a certain size. This has enabled them always to have some amount of capital with them and advance it as a loan to members and earn interest on that amount.

Kumaun Sewa Samiti has played a crucial role in formation of SHGs in Sitarganj Block of U.S. Nagar its representatives especially "Taya Mishra" president of Kumaun Sewa Samiti .....people continuously many time and convince women about the advantages of

formation of SHGs but people did not take their suggestion seriously and they ask such question like.

- (iv) Is our savings are in safe hands?
- (v) What amount we have to deposit per month?
- (vi) What are the main advantages to join a SHG?
- (vii) Are you going to arrange loan for us?
- (viii) What is interest rate on your loan
- (ix) What type of formalities we have to do for loan.
- (x) And one women asked to us, how much would be the subsidy in it.

The representatives of Kumaun Sewa Samiti were not disheartened by this kind of negative response from people and want on telling them that instead of depending on the bank loan and its subsidy, they can start their own SHG in their village and begin to save some amount of money for there later use.

People have the saving potential in them and it can be better used through SHGs further, it took them to those villages where SHGs were already formed and working successfully. The people of Sitarganj Block were convinced about the advantages of formation of A SHG.

## Advantages for linkages Bank

KSS has been successful in achieving a high percentage of inter loan recovery. Linkage with Banks was able to reduce the transaction cost. There was good amount deposited in the banks. Further bank have rather gained in terms of deposit and improved N.P.A., higher profit and access to new clients among the poorest class. Under S.S.P. 100 SHG were formed under K.S.S.

## Case Study of Institute of Himalayan Environmental Research and Education (INHERE) Almora District.

Inhere was founded by few like minded individual who had a strong conviction that people centred research and education was needed to obtain and use information to improve to the lives of communities living in the Himalayan Region. With this objective in mind and to utilize the vast resources, human and natural of the Himalayan Region fully, this NGO is setup in December 1982.

Operational Area of inhere is Himalayan Region of India.

Area of Direct Intervention- Six administrative blocks of district Almora, Uttarakhand.

Vision- Ensuring a people centered sustainable process of development in the Himalayas based on:

- Security, equity and harmony in society
- Equal opportunity and participation of women and men.
- Sensitivity to the relationship between environment and development.

Mission - Environment restoration and providing development opportunities to marginalized sections especially women of the Himalayas.

Table-12  
Human Resources Development  
SHG deposits and earnings from different sources up to March 2006  
by Inhere

S.No.	Block	Total SHGs	Total Sanchalan Chanda (Rs.)	Total Interest	Earning from other sources	Total earning
1	Chaukhutia	158	330007	181286	772011	1283304
2	Bhikiyasain	74	180259	106347	369092	655698
3	Dwarahat	25	52992	96885	150325	300202
4	Syalde	57	52921	98735	337424	489090
5	Salt	30	67188	19355	131400	217943
6	Bhainsiachhana	55	7464	-	-	7464
	Total	399	690831	502608	1760252	2953701

Source: Economic classification of these SHGs on the basis of their total deposits is

Table-13  
Total inter-lending among members up to March 2006

S.No.	Block	Total SHGs	Total inter-lending	Total Beneficiary	Purpose of loan
1	Chaukhutia	128	927222	819	Household
2	Bhikiyasain	47	533330	256	Income generating activities
3	Dwarahat	23	191700	189	
4	Syalde	42	378600	156	Emergency
5	Salt	25	93600	125	
6	Bhainsiachhana	02	15000	03	
	Total	267	2125952	1548	

Source: Inherence (Almora)

Target Group- The Socio-economically deprived and marginalized people of the Himalayas, especially the women on whom falls the greater burden.<sup>19</sup>

### Case Study of Village- Jala

(Block Chaukhutiya, P.O. Jaurasi, District Almora)

In March 2006 inhere formed a women self help group in village Jala with the help of South Asia women fund. (SAWF). A survey has been conducted on organic farming. 32 families were selected under the South Asia Women Fund (SAWA) project.

Under the project INHERE community organizer organized discussion on organic farming system training and workshop on organic agriculture in the village. The main issues dealt were importance of organic farming, difference between organic and inorganic produces. Precautionary measures for organic agriculture organic methods for storage, etc.

In 2006, 18 SHGs were linked with the Bank and have taken loan under C.C. Limited. The detail is shown in the following table.

Table-14

S.No.	Block	SHGs linked	Total loan taken (Rs)
1	Chaukhutia	6	20000
2	Bhikiyasain	3	150000
3	Dwarahat	3	60000
4	Syalade	1	25000
	Total	18	255000

## Success Story of Village - Pacharuca

Block-Syalde, Distt Almora

Income Generation Activity: Pachauva is a very remote village of Block Syalde. There are weak infrastructure and limited access to means of communication. Due to the remoteness from block and district head quarter the villagers are not benefited by any need base development programme.

In March 2006 INHERE facilitator started promotion of organic agriculture programme under the South Asia Women Fund (SAWF) Project. 23 village families were selected under the programme. The villagers were motivated towards promoting and intensifying organic agriculture in which main activities carried were to organized organic agriculture, workshop, trainings of trainers, ICS training, and formation of women's self help group.

In village Pancharuva two self help group of women and one commercial group of farmer were formed.

Presently the villagers are using agriculture practices, like Vermi compost, CPP, Bio-dynamic manure and getting better yield from their agriculture.

## Impact Assessment

-Men of the village also have started taking initiatives for cooperating with women SHGs.

- Village people now able to recognize the importance of SHGs in their life because SHGs played important role for upliftment of there families, economically and socially
- The experience of women SHGs in Chaukhutia Block (Distt Almora) linked with bank finance that transaction costs are reduced for both the rural banks and the rural women borrowers.
- The repayment of inter loaning were very good in SHGs.
- In Chaukhutia 35 Gram Pradhans of left out villages requested to in here for helping them in forming women's self help group.
- As per the survey conducted in 15 villages 54 to 89% women participation in village development work done by government and non government agencies has been noticed.
- SHG members now directly monitoring the savings and credit activities of the group.
- With the help of SHG loan facilities will be available through an alternative credit system (for production as well as consumption.)
- Local resources used for enhancing employment and income generation.
- SHG helps people to fulfill there social needs which include expenses like marriage, funeral it.

### Central Himalayan Environment Association (CHEA)

The Organization- Initiated in 1981 a group of person deeply concerned for the preservation of environment and appropriate development of the Himalayan Region in general and the Central



Himalayan Region of the Association (CHEA) is a non profit, independent body registered under the Societies Registration Act XXI of 1860. In the course of about two decade time, CHEA has contributed to creating conditions that enable village communities to manage natural resources and benefit from them on a sustainable basis. The association is committed to the cause of sustainable development.

### Objects:

#### A. Human resource development

- Ø Empower local community to address their needs and responsibility emphatically.
- Ø Improve local skill and knowledge to enhance community income generating activities and living standard.
- Ø Train local community to address environment e.g. carbon request ration for community's profit.
- Ø Providing development alternative for youths, ensuring investment in our future for canalizing the energy in productive ways.
- Ø Applying participatory methods to restore the self sustained system of village communities of the Indian central Himalayan Region by optimum utilized of traditional wisdom and knowledge.

#### B. livelihood and Sustainable Development

Addressing basic human needs to support capacity building of communities for enabling them to ensure basic needs by economic stability.

- Ø Ensuring active women participation in sustainable development and livelihood initiatives.
- Ø Promote healthy ecosystems for as well as higher sustainable productivity with nutrients, water and energy and for higher quality of life.

### C. Social Development

Promoting human rights, democratic development and good governance to increase respect for human rights, including rights of weaker sections of hill society to promote democracy and better governance by an efficient and strengthened Panchayati Raj system, to strengthen the components of civil society, such as community based organization.

### D. Way of Working

Action Oriented and collaborative studies, project planning and implementation, institution and capacity building, promotion of dialogue between village communities and developmental agencies including government, net working, information dissipation and communication, running environmental awareness programmes including training.

### E. Vision

Prosperous, self reliant and secure mountain communities committed to peace, equity and environmentally sound sustainable development.

## F. Mission

To develop and provide integrated and innovative solutions, incorporating with regional and international partners, that holster direct action and policy change for overcoming the environmental, economic and social vulnerability of mountain people.

G. Membership- CHEA stands with eleven members in Governing council along with one hundred and twenty one life members, two institutional, and two student members.<sup>20</sup>

## Employment Generation Programme of CHEA

(Indigenous Honeybee in the Himalayas)

Presently in India 21.1% population is below poverty line and struggling for there basic needs of living hood. In India there are various reasons for this deep-rooted poverty. The main causes of poverty are lack of financial assistance, lack of vocational assistance and lack of employment. CHEA believes with the perfect utilization of local resources, vocational assistance and better financial assistance large number of people of Himalayan Region will fund out their own way out of poverty. About 63% of the area of Uttarakhand is classed as forest land with differing density of forest cover and due to extensive forest and natural resources the keeping is practiced traditionally since ages. About 85% plants are cross pollinated, and they need to receive pollen from other plants of the same species with the help of external agents. One of the most important external agents is the honey bee. Scientific studies have established that increasing in yields of various crops due to the pollination by honey bee ranges from 20% to 100%. Thus, Bee

Keeping in the essential requirement for the pollution in orchards and source of extra income for the farmers. In addition to the benefits of improving fruit, bee keeping can be and is a very remunerative activity by itself it would supplement the income of the Grower. Hence modern techniques of apiculture are needed to be adopted by sharing the experiences of different countries and how the practice of apiculture could be taken up as a micro-enterprise the farmers beside honey production could also serve through colony rearing, manufacturing of wax and the rearing of queen by taking up as micro-enterprise.

To make bee keeping a success, bee keepers should have ample provision for their food all should establish orchards and start floriculture practices.

Therefore, keeping in view the above CHEA and ICIMOD have agreed to up scale beekeeping programme through research and extension in the mountain areas of Uttarakhand State of India. This broad agreement is reached since the beekeeping activities will be continued after project period as well.

Purpose and objectives: the main purpose of the project is to contribute to increase income of marginalized rural populations (mountain women & men) by promoting conservation and sustainable management of indigenous honey bees through strengthening partnership with rural development organizations, technical institutions, and international agencies." The overall objective of the project is to "improve the livelihoods of rural mountain people and conserve biodiversity."

Project its- 22 villages in block have been selected to conduct the project activities. The list of villages selected for the formation of new and/or adoptions of already existing community based organisations CCBO's in Lamgarah development block are given as under.

Table-15

## Employment Generation Programme Project Site of CHEA

S.No.	Village	Women CBO's other CBO's	
1	Guna	01	01
2	Ujjaula	01	03
3	Chautra	01	-
4	Silkhoda	-	01
5	Nisni/Plna	-	01
6	Jalna	-	02
7	Toli	03	01
8	Kotli	-	01
9	Kotli	-	01
10	Bhaili	03	01
11	Talla Toli	-	03
12	Takoli	-	04
13	Thaat	-	01
14	Shurransangroli	01	03
15	Kharsora	-	03
16	Dhaura	-	01
17	Chaukhutiya	-	01
18	Balma	-	01
19	Naura	01	01
20	Chatola	-	01
21	Kherda	-	01
	Total	12	33

Source- Annual Report 2005-06 (CHEA) Page No. 41

Other stakeholders- To achieve the targets under the project there is a need of different stakeholders who are essential part for the success implementation of the programme and under the project the stakeholder involved are community, Horticulture mobile team and state beekeeping centre.

Activities- The activities under the project were initiated in advance to speed up the works and its brief during the year is subject are given as under.

- (i) Pre Project activities and baseline survey.
- (ii) Selection/identification/formation of CBO's; Total 12 women CBOs were formed which have 78 members and 33 other CBOs were also formed with 201 total numbers of members in various villages under the project.
- (iii) Project Introduction: To pursue the implementation mechanism, the details about the project was elucidated among the villagers during the process of formation of CBOs. The farmers were briefed about the objectives of the project, its concept and the support that would be provided to the beekeepers under the project.
- (iv) Visit of state government beekeeping centre at Jeolikote, Nainital
- (v) Development of awareness material and literate.
- (vi) Evaluation of sites for piracy establishment.<sup>21</sup>

## Impact Assessment

- Enhancement of quality of life and income generating skills.

- Respect for all forms of life- the preservation of biodiversity and life support systems for all natural habitats.
- Now People of Lamgarah Block encourage sustainable appreciation of heritage resources.
- Beekeeping helps to increase in yields of various crops due to the pollination by honeybee.
- Honey production becomes the extra source of income generation for the village people.
- SHG's are able to develop the saving habit among the group members; savings enhance the self-confidence of the members.
- SHGs provided an alternative credit system people are avoiding borrowing money from money lenders at a higher interest rate.

## Conclusion

From the all facts it can concluded that the Micro-finance played important role in Kumaun division.

Micro-Finance have been able to attract more and more savings each year and is supplying much micro-credit to the needy poor SHGs members. It seems that social economical life of most SHGs members have enhanced after their interaction with NGOs and government agencies. In most cases SHGs members agree that NGO offered best possible services to SHGs. It seems that the SHGs has much more potential for poverty alleviation and employment generation programmes in Kumaun Division. At present government and NABARD are interested to promote self help groups and Micro-finance



organization. Now India is also in the process to become one of the largest Micro-Finance markets in the world.

The lack of financial assistance and credit facilities are the major hurdles in removing poverty and creating employment for huge mass. In these circumstances large number of people demands a genuine practical, workable solution for poverty alleviation and employment. In this regard the task of the government and Micro-finance organizations, NHOs have to make plans and strategies to solve there problems. If proper finance facilities, training and vocational assistance provided by the government through Micro-finance organizations, NGO's we can look forward to solved these problems in the times to come.

Over all the present position of the Micro-Finance can be said as good and satisfactory in Kumaun Division.

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## Chapter-3

### The Role of Micro-Finance in the Fields of Sustainable Finance, Employment, and Poverty Alleviation in Kumaon

The problem of poverty in our country has promoted Government to come up with poverty alleviation programmes. In our country most of the Government promoted poverty alleviation programmes failed to deliver the expected results, certain innovative efforts hold out fresh hopes. One such effort is the formation of MFOs for providing sustainable finance to the poor people.

Sustainable finance has many meanings in the field of micro-finance for understanding sustainable finance we have to focus on following points.

1. Finance services for poor people to become self reliant.
2. Providing easy, timely, and adequate financial services for poor people.
3. Try to understand social and economic problems and needs of poor people.
4. SHGs can not be successful without proper attention and adaptation to the environment in which SHGs will operate. It is not possible to design a blue print to suit every condition, that's way a wide range of different methods are available for providing Micro-finance services.

5. Increase self esteem, self confidence of poor people.

6. Increase the habit of savings to poor people.

## Important steps for the Development of Sustainable Financial Services

### 1. Choose a programme model

One specific programme model for financial services and micro enterprise development can not be recommended for all situations. However certain basic technical and Socio-economic criteria can be employed-large scale, reaching the poor, providing easy access to savings and credit service mechanism for cost recovery and financial sustainability combining credit and savings, and credit with other socio-economic programmes also ensure better participation and sustainability.

### 2. Build Consensus

Building a consensus among the various stakeholders, whether project staff members, the target community, or other individual/organizations, is an important element in the success of credit programmes. This is critical in facing the challenge of adjusting their values and roles a new financial service; models reduce the subsidy element, stress the rotation of funds, and feature partnerships.

### 3. Designate Staff for Economic Development

Project staff members specifically designated to oversee development and implementation of financial services, plays a critical role in facilitating an increased understanding and awareness, and in

transferring lesson learned. Experience in project design, implementation, management, and evaluation, and experience in working with poor mass is essential for effective outreach.

#### 4. Formalize National Regional Policies

Clear National/Regional policies for micro-credit and poverty lending permit greater scale, sustainability. Thus avoids local programme design, as well as enables sharing of best practices and high performance ideas.

#### 5. Assess and choose financial institutions partners

Dynamic partnership models are necessary to successfully promote sustainable financial institutions. Partners typically take up the activities of managing funds or provide services to poor clients; they may also monitor service delivery and socio-economic impact and assist in financial management and management information systems. As a result, both parties enhance their understanding of effective development and become strong organization.

#### 6. Create agreements with Partners

Agreements with partners define common vision and spell out contents of the programme. Role and responsibilities joint review, problem solving/mediation, and performance indicators are also identified. Agreements include loan portfolio performance, cost recovery, progress toward sustainability and socio-economic impact (overcoming gender inequities, effects on children).

#### 7. Manage Partnership Agreements

Manage partnership agreements require an understanding of the broader programmatic, institutional, and financial issues associated

with developing partner organizations. This may require technical assistance, training, and systems development etc. to make partnerships more efficient. Measuring programme impact and institutional development of partners depends on good information systems and monitoring instruments.<sup>1</sup>

MFOs have been functional in countries like Bangladesh, Korea, Malaysia and Indonesia for a long time. In Bangladesh Grameen Bank shown remarkable results in poverty alleviation. In our country this approach has been extensively used by voluntary agencies for a long time, but has been incorporated in the conventional credit development programmes only in the present decade.

### Role of SHGs in Micro Finance

In recent years self help Groups have become significant tools for rural development. This is now particularly in the case of poor people. It is now realized that instead of targeting the individual in the process of development, it would be more useful to adopt the approach of group development. In India poor people do not have capital to start a micro business on an individual basis.

The SHG approach makes available the collective wisdom and combined resources for any risk. The main objective of the rural credit development is to provide an opportunity to the target groups or people for enhancing productivity, maintaining balance in development, achieving socio-economic equity, maintaining ecological balance, ensuring community participation in development etc. In other words we can say development is a strategy to promote the

social life of common people and to extend social and economic benefits to the target groups followed by social and political awareness.

In India, the banking sector has also formally accepted the SHG groups as eligible entities for development of credit SHG approach has helped in improving recover of bank loans and ensuring proper use of credit. Micro-finance now being regarded as a instrument for the employment of the rural poor. "According to the statistics of Nabard, there are 4757 self-help groups spread over 16 states and one Union Territory linked with credit amounting to Rs. 650.80 lakhs. The Rashtriya Mahila Kosh, a governmental organization is yet another potential resource agency, extending financial support to promote SHF through NGO's.<sup>2</sup>

The experience of NGO's and other voluntary agencies has helped in providing useful financial services to the poor people. NGO's like MYRADA, and ASSEFA have done extensive work in the area and their experience reveals that self-help groups could be the most appropriate conducts for channeling credit for removing poverty and extending the stimulus number of function for development.

- Micro credit help poor women by providing independent sources of income outside home, micro credit tends to reduce economic dependency of the women o husbands and thus help enhance autonomy.
- Providing micro credit to poor people for self dependent self-reliant and confidence to achieve social change.
- SHG provide a platform to the members for exchange ideas for group upliftment.

- Providing Micro-finance for micro enterprises development and bring prosperity to members families.
- Providing a forum for SHG's members for discussing their social and economic problems and enhancing the decision making capacity of members.
- Developing a spirit of help and co-operation among the members.
- Promoting literacy and equipping women with the basic skills required for understanding monetary transactions.

## Micro-Finance and Poverty Alleviation

Availability of credit is the basic requirement for developing a society, more so, to a poor person. Credit, should be timely, adequate as well as easily available. In our country formal institutions, including nationalized banks are unable to meet the huge micro credit requirements of the poor people. This has left persons to depend on moneylenders for credit. Moneylenders with abundant common sense offer timely but an exploitative credit, which act as a poverty trap for the poor.

Therefore, micro-finance programmes have emerged as effective instruments of poverty alleviation in India. Micro finance programmes are expected to play a significant role in economic empowerment of poor by creating self-employment opportunities, making them credit worthy and providing social protection through insurance.

## Scope



As there are over 24 crore people below the poverty line in the country there is a wide scope of micro-finance for lifting the poor above the level of poverty. NABARD chairperson at Micro-credit summit in Dhaka on 16<sup>th</sup> February 2004 presented that, "14 million poor families access micro finance through 881154 SHG's linked to over 30000 branches of 504 banks comprising commercial banks, regional rural banks, and cooperative banks." It reveals that the micro-finance market in India is not quite matured in terms of number of clients, range of services etc. Annual report of FWWB, (Friend's of Women World Banking), 2002 intimated that only about 3% of the poor households in India who need access to credit, receive financial services from the formal financial institutions and the micro finance sector put together, hence there is considerable scope for expansion of Micro-finance programmes in India.

### Micro-Credit tool of Poverty Alleviation

In many countries, micro credit programmes have proved to be an effective tool in freeing people from poverty and have helped to increase their, participation in the economic and political processes of society. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. It is in that context that micro credit has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacities of the poor for entrepreneurship has been encouraged with the availability of small scale loans and has introduced them to the small-enterprise sector. This could allow them to

be more self-reliant, create employment opportunities, and not least, engage women in economically productive activities. A large number of studies undertaken so far on the impact of micro credit programmes on household income show that participants of such programmes usually have higher and more stable incomes than they did before joined the programmes. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and targeting credit to reach the poorest of the poor. However, several micro finance institutions have succeeded in reaching the poorest of the poor by devising innovative strategies, such as provision of small loans to poor people, especially in rural areas. Without collateral, that is repayable in frequent installments. Borrowers are organized into groups, which reduce the risk of default. Above all, many micro credit programmes have targeted one of the most susceptible groups in society-women who live in households that own little or no assets. By providing opportunities for self employment, self-confidence and status within the household.<sup>3</sup>

## Micro Finance and Micro enterprises/Income Generation Activities

Micro enterprises can play an important role in improving the quality of life, Employment, and poverty alleviation. Micro enterprises contribute significantly to economic growth, social stability. The sector is one of the most important vehicles through which low-income people can escape poverty and generate employment. With limited skills and education to complete for mal sector jobs, there poor people

find economic opportunities in micro enterprise as a business owner or a employee of micro enterprises include street venders, small shopkeepers, carpenters, machine shop operators and small farmers micro entrepreneurs come in all types, and their businesses in many size.

The biggest challenge for our country is generate enough employment and income opportunity for the rural and urban poor, but in a sustainable manner. A key activity for SHGs has been the development is largely because through these poor people are able to increase there family incomes.

Micro enterprise is also about selling a product or service but is frequently carried out by individual poor working on their own or employing others.

Successful income generation and micro enterprise depends upon being able to make or sell something that another person wants to buy and selling at a price that will ensure a profit.

### Ingredients for Successful income Generation Activities/ Micro Enterprise are Following

#### Successful Role Models

It is generally accepted that if we see others being successful then we will be encouraged by them. Women who are successful in setting up and running income generating activities or small scale enterprises can encourage others to activities or small scale enterprise can encourage others to try out their own ideas. These poor can then be role models for others and should be encouraged to talk about what they have done and how they overcome difficulties and problems.

## Access to information, knowledge, and skills

To be successful in business poor people need access to information, knowledge about the enterprise, knowledge about finance and making new products and reaching the market. Poor mass also need the opportunity to learn new skills such as book keeping and managing finance and poor people must gains knowledge and skills to be able to develop their idea successfully.

## Sustainable Legislative Environment

For income generating activities and enterprises to be successful, there must be a supportive environment that does not place unnecessary legal barriers or constraints in the way. The successful activity need to be free to develop and take opportunities that are presented.

## Micro Insurance-Mechanism to Combat Vulnerability

“Like employment, health, child care poor also need insurance to fall back on in times of financial crisis or un-presented calamities” - said by a member of SEWA.

Insurance behalf the poor combat the vulnerability caused by exposure to such risks. By pooling into a risk fund to cover stipulated risks-such as illness, loss of assets, death and widowhood-poor can protect themselves from unexpected losses. Insurance of lives and livelihoods is important to the risk prove economic life of the poor.

The micro finance a practitioner has responded to the need of the poor for financial services through special delivery mechanisms customized to meet their needs. However, it is becoming clear that the poor need different types of financial services throughout their lives.

Savings and credit is one of them. Insurance is another. Thus, micro finance is now emerging as a concept, which denotes a set of financial services, which not only includes savings and credit, but also encompasses service like insurance directed to ultimately benefit those living in poverty. Insurance as a new financial product has the potential to improve profitability by reducing loan losses and replacing clients need to draw from savings for emergencies. Various institutions such as MFIs, for NGOs, cooperatives, trade unions etc. Provide insurance to the poor and low-income group.

In our country, in the micro insurance sector, the insurance products provide protection against major risks, such as life and non-life (Non-life includes sickness, loss of property/asset risks). In addition, there are a few other products such as crop insurance, cattle insurance; but insurance and hand pump insurance. The welfare implications of micro insurance are more obvious, as it provides social protection, reduces social exclusion and the vulnerability of the poor.

Hence, the success of micro finance programmes whether it is micro credit or micro insurance lies on the sustainability of programmes that can be possible throughout reach and quality services. These programmes deal with the financial matter that involves trust of poor people towards it. Therefore, effective communication and extension activities are required to make such programmes successful.

## Communication for Development

Today, there is no need for a discussing whether communication plays any role in the process of development. Communication has

contributed immensely towards development. It is an integral part of development. Without effective communication, it is almost impossible to bring about changes in society, and its people. Communication plays an important role in the development of a nation. Societies cannot change and develop without communication, as it is a process of social interaction through which people are influenced by ideas, attitudes, knowledge, and behaviour of each other.

Communication has attended a great importance in the development programmes. It is through the process of communication that people are made aware of the nature and objectives of the programmes. The useful development messages are conveyed to the target groups through various communication approaches. This helps masses in acquiring new knowledge required for coping with the fast changing society. It helps people in adoption of innovations for the improvement of their practices, methods, and quality of life. Thus, communication has come to be recognized as an important aspect of development.

## Communication for Micro-Finance

Communication should be guided by principle like:

- The message should not be too long and difficult to comprehend for the audience.
- Information should be precise, accurate, and specific and should be presented in a manner that is interesting and effective.
- It should not be uniform for all the target audience but should be changed according to each audience's knowledge and awareness level.
- The messages should not be such that the target audience do not relate to it. These messages should be simple and easily understandable, culturally and socially appropriate, technically correct, brief relieved, practical and positive.

Various communication strategies can be used and adopted to promote micro-finance and related programmes amongst the needy so that if they are not aware about the programme, they become aware they understand the process of availing benefits, and can improve the quality of life. Following communication media can be adopted:

- Print media: Print media have an important role to play in dissemination of information and as a social watchdog, social monitor, constructive critic, and stimulator of new ideas. Print media used for mass communication are powerful sources of bringing about attitudinal change and motivating people for action. Newspapers journals, books, booklets, pamphlets, newsletters are examples of print media through which messages can be conveyed.

- Interpersonal: Interpersonal communication should be applied throughout a continuous of activities it is as important for advocacy of work between communicator and audience. This type of communication is the most dynamic, more informal and therefore more flexible in nature.
- Electronic Medium: In today's world electronic media play an important role in changing the attitude of audiences in several ways. Electronic media have enormous impact on our knowledge thinking, feeling and soon. Radio, television, films are the examples of electronic media through which information can be projected in a very effective and convenient manner. Radio talks and discussions can help rural poor to understand the benefits of the schemes. Through television, success stories and documentaries can be shown in an effective manner.

Important factors to be considered by extension workers development communicator-

- Language used should be simple to understand, colloquial depending upon the target audience and nature of medium and format.
- Folk Medium/Traditional Local Medium: In Kumaun we have variety of folk media, which are symbols of grass roots culture of the rural masses. They represent the natural art of the people and they have instant mass appeal. They convey messages through entertainment, colour, costume, dance, and music. It helps people to understand the messages clearly and effectively.



- A participatory approach shall be followed which invites the audience as partners not merely as “audience”.
- Media should be based on audience’s media diet and therefore a multimedia approach needs to follow-print, electronic, interpersonal folk media etc. in a campaigns mode.
- Repetition of messages in an innovative ways is required like through rallies, popular local focus; religious head may be utilized to convey messages. Even local cable television helps in dissemination of information.<sup>4</sup>
- Interesting formats like social advertisements quickies, short and long term needs-needs to be followed.

Communication is very important in fostering the development process in a country. It can be a powerful instrument in integrating diversified society. It can create an ethos of change and progress. Communication by itself does not produce development. Communication should be designed or tailored to fit the various development projects. Hence, the overall communication approach should be open and responsive.

A two-way communications approach it’s desirable which is both vertical where communication follows from bottom up also and horizontal, followed a feed back mechanism is created which will get response from the people for appropriate corrections in communication.

Concept of Poverty and Government Plans and Schemes for Poverty Alleviation

India inherited a badly shaken and divided economy from the British rulers at the time of Independence in 1947. Even after six decades of development efforts, India facing the problems of unemployment and poverty. After Independence economic development of India has focused on removal of poverty and unemployment. Central and state Governments launched various schemes and programmes for poverty alleviation and employment generation, particularly for poor people.

Poverty is a situation in which as section of community is unable to acquire or get even the basic necessities of life such as food, clothing and shelter, many countries including India is suffering from a mass poverty where a large section of the society lives on bare subsistence level or even below that level.

“Definition and Concept- Various authors have defined poverty as follows-

1. United states President's commission on income maintenance (1969) has written that 'if society believes that people should not be permitted to die of starvation or exposure, and then it should define poverty as the lack of minimum food and shelter necessary to maintain life.
2. Rowntree (1899) has defined the poverty as a family is considered to be living below poverty, if its total earnings were insufficient to obtain the minimum necessities for the maintenance of merely physical requirement.'

3. Dutta and Sundaram (1997) has quoted as 'The deprivation of a significant section of the society of minimum basic needs in the light of elite groups makes poverty more glaring.'

As the definition alone does not give a clear picture of the poverty, we have to understand the concept of poverty. The concept of poverty in India includes destitution and unemployment as well as the income below the minimum acceptable standards. Even we can say the definition of poverty can not be explained or written on the paper, poverty is to understand, to feel.<sup>5</sup>

### Estimation of Poverty

As per the sixth Five Year Plan (1980-85) Report the poverty line has been defined as recommended nutritional requirement of 2400 calories in rural areas and 2100 calories in urban areas per person per day. This is the minimum nutritional requirement for subsistence of a person. These calories are equal to approximately 750 grams of rice or wheat. This calorie requirement is divided into various items of consumption called consumption basket. This consumption basket is converted into money terms as per the price index to calculate the monthly or yearly consumption expenditure. To this a minimum consumption expenditure on non food essential items is added. This is considered as the poverty line. Persons who are not able to manage this much food are treated as below poverty line. Thus we can take this as absolute poverty. And such people who are below poverty line as

per the definition are 26 percent in our country. According to professor V.M. Dandekar and Dr. N. Rath a food intake of 2250 calories is the minimum level of nutrition required for an individual. And at the 1960-61 prices the people with an income per head annum below Rs. 180 in rural areas and below Rs. 270 in urban areas are considered to be living below poverty line.

As per the definition of poverty in India based on the calorie intake, various authors have given the criterion for poverty line that various periods given in next page.

Table-22  
Estimates of Poverty in India

S.No.	Year	Author	Criterion for Poverty Line (Monthly per capita expenditure in Rs.)	Estimated extent of poverty (per cent)
1	1956-57	B.S. Minhas	Rs. 16.60 at 1960-61 prices	65 Rural
2	1960-61	P.K. Bardhan	Rs. 15.00 at 1960-61 prices using Ag. Labour Index	38 Rural
3	1960-61	Dandekar and Rath	Rs. 14.20 at 1960-61 prices for Rural, Rs. 21.00 for urban	41 Total
4	1960-61	P.D. Ozha	Rs. 15.18 at 1960-61 prices	44 Total
5	1963-64	M. Ahluwalia	Rs. 15.00 at 1960-61 prices for rural and Rs. 20 for urban	44.5 Rural
6	1963-64	EPW De Costa	Up to Rs. 15.00 for rural and Up to Rs. 20.00 for urban areas	34.5 Total
7	1970-71	Seventh Finance Commission	Augmented Poverty line (per Capita monthly private consumer expenditure plus per capita monthly public expenditure by each State Governments in 1970-71	52 Total
8	1971-72 1977-78 1983-84	V.m. Dandekar	Rs. 32.70 at 1971-72 prices Rs. 54.40 at 1977-78 prices Rs. 88.40 at 183-84 prices	46.0 Rural 49.5 Rural 49.5 Rural
9	1979-80	VI Five Year Plan 1980-85	Rs. 76.00 (rural) Rs. 88.00 (Urban) 1979-80 Prices	48.4 Total
10	1983	World Bank	Rs. 89.00 (Rural) Rs. 111.20 (Urban) at current Prices	42.5 Total
11	1984-85	VII Five Year Plan 1985-90	Rs. 107.00 (Rural) Rs. 122.00 (Urban)	36.9 Total
12	1987-88	Minhas & Jain Tendulkar	Rs. 122.60 (Rural) Rs. 158.30 (Urban) 1979-80 Prices	42.7 Total

13	1987-88	Planning Commission Expert Group 1993	Rs. 115.43 (Rural) Rs. 165.58 (Urban)	39.1 Total
14	1996	Gaurav Dutt (World Bank)	Rs. 49.00 (Rural) Rs. 57.00 (Urban) 1973-74 Prices	38.0 Total
15	2003-04	Economic Survey	-----	21.1 Total

The problem of poverty in our country has promoted Government and NGO's to come up with poverty alleviation programmes. Major poverty alleviation, employment generation and basic services programmes started by the government are following.

## 1. National Food for Work Programme

In line with the NCMP, National Food for work programme was launched on November 14, 2004 in 150 most backward of the supplementary wage employment. The programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is implemented as a 100 percent centrally sponsored scheme and the food grains are provided to states free of cost. However the transportations, handling charges and taxes on food grains are the responsibility of the states. The collector is the nodal officer at the district level and has the overall responsibility of planning, implementation, coordination, monitoring, and supervision for 2004-05, Rs 2020 crore have been allocated for the programme in addition to 20 lakh tones of food grains.

Major poverty alleviation, employment generation and basic services programmes National Food for work Programme

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### Swaranjayanti Gram Swarozgar Yojana (SGSY)

SGSY, launched in 2001, aims at providing addition wage employment in all rural areas and thereby food security and improve nutritional levels. The SGRY is open to all rural poor who are in need of wage employment and desire to do manual and unskilled work around the village/habitat. The programme is implemented through the Panchayati Raj Institutions (PRIs).

### Rural Housing-Indira Awaas Yojana (IAY)

The Indira Awas Yojana (IAY) operationalised from 1999-2000 is the major scheme for construction of houses for the poor. Free of cost. The Ministry of Rural Development (MORD) provides equity support to

the Housing and Urban Development Corporation (HUDCO) for this purpose.

### Pradhan Mantri Gramodaya Yojana (PMGY)

PMGY launched in 2000-01 envisages allocation of Additional Central Assistance (ACA) to the States and UTs for selected basic services such as primary health primary education, rural shelter rural drinking water, nutrition, and rural electrification. For 2003-04 as well as 2004-05, the annual allocation of ACA for PMGY was Rs. 2,800 crore.

### Rural Employment Generation Programme (REGP)

REGP, launched in 1995 with the objective of creating self-employment opportunities in the rural areas and small towns, is being implemented by the Khadi and Village Industries Commission (KVIC) Under REGP, entrepreneurs can establish village industries by availing of margin money assistance from the KVIC and bank loans, for projects with a maximum cost of Rs. 25 lakh. Since the inception of REGP, up to 31 March, 2004. 186252 projects have been financed and 22.75 lakh employment opportunities created. A target A target of creating lakh new jobs has been set for the REGP during the Tenth Plan. 8.32 lakh employment opportunities have already been created during 2003-04. For 2004-05, a target of creating 5.25 lakh job opportunities has been fixed.

### Prime Minister's Rozgar Yojana (PMRY)

PMRY started in 1993 with the objective of making available self-employment opportunities to the education employed youth by assisting them in setting up any economically viable activity. So far



about 20 lakh units have been set up under the PMRY, creating 30.4 lakh additional employment opportunities. The targets for additional employment opportunities under the Tenth Plan and in 2004-05 are 16.50 lakh and 3.75 lakh respectively. While the REHP is implemented in the rural areas and small towns (population up to 20,000) for setting up village industries without any cap on income, educational qualification or age or the beneficiary, PMRY is meant for educated unemployed youth with family income of up to Rs. 40,000 per annum, in both urban and rural areas, for engaging in any economically viable activity.

### Pradhan Mantri Gram Sadak Yojana (PMGSY)

The PMGSY, launched in December 2000 as a 100 per cent Centrally Sponsored Scheme, aims at providing rural connectivity to unconnected habitations with population of 500 persons or more in rural areas by the end of the Tenth Plan period. Augmenting and modernizing rural roads has been included as an item of the NCMP.

The programme is funded mainly from the accruals of diesel cess in the Central Road Fund. In addition, support of the multi-lateral funding agencies and the domestic financial institutions are being obtained to meet the financial requirements of the programme.

Up to October, 2004, with an expenditure of Rs. 7,866 crore, total length of 60,024 km. of road works has been completed. The National Rural Roads Development Agency (NRRDA). An agency of the Ministry of Rural Development registered under the societies Registration Act provides operational and technical support for the programme.

## Droughtout Prone Areas Programme (DPAP), Desert Development Programme (DDP) and Integrated Wastelands Development Programme (IWDP)

DPAP, DDP and IWDP are being implemented for the development of wastelands/degraded lands. During 2004-05 allocation of Rs. 300 crore. Rs 215 crore and Rs 368 crore were provided for DPAP, DDP and IWDP respectively. So far during 2004-05, 2550 projects covering 12.75 lakh hectares, 1600 projects convening 8 lakh hectares and 165 projects covering 8.32 lakh hectares have been sanctioned under DPAP, DDP and IWDP, respectively

## Antyodaya Anna Yojana (AAY)

AAY lauy launched in December 2000 provides food grains at a highly subsidized rate of Rs. 2.00 per kg. Wheat and Rs. 3.00 per kg for rice to the poor families under the Target Public Distribution System (TPDS). The scale of issue, we, which was initially 25 kg per family per month, was increased to 35 kg per family per month from April 1, 2002. T00 The scheme initially for one crore families was expanded in June 2003 by adding another 50 lakh BPL families nilies. During 2003-04, under the AAY, against an allocation of 45.56 lakh tonnes of food grains, 41.65 tonnes were lifere lifted by the State/UT Governments. Budget 2004-05 expanded the scheme further from August 1, 2004 by adding another 50 lakh BPL families. With this increase, 2 crore families have been covered under the AAY.

## Swarnawarna Jayanti Shahari Rozgar Yojana (SJSRY)

The Urban Self Employment Programme and the Urban Wave Employment Programme are the two special components of the SJSRY, which in December 1997, substituted for various extant programmes implemented for urban poverty alleviation SJSRY is funded on a 75.25 basis between the Centre and the States. The expenditure during 2003-04 was Rs. 103 crore. For 2004-05 the allocation is Rs. 103 crore, out of which Rs. 90.38 crore were utilized by December 31, 2004.<sup>6</sup>

### Major Initiatives in the Social Sector Undertaken in 2006-2007

- The National Rural Employment Guarantee Scheme (NREGS) launched on February 2, 2006 has made fully operational in 200 backward districts of the country. Allocation for three rural employment schemes, i.e. SGRY, in 2006-07 is Rs. 15,500 crore, of which Rs. 11,300 crore is for NREGS.
- Allocation for Bharat Nirman, the programme for building infrastructure and providing basic amenities to rural areas, has been enhanced by 54 per cent from Rs. 12,160 crore in 2005-06 to Rs. 18,696 crore in 2006-07.
- Provision for health and education in 2006-07 enhance by 22.0 per cent and 31.3 per cent, respectively, to Rs. 12,564 crore and Rs. 24,115 crore, respectively.
- The allocation for Mid-Day Meal (MDM) Scheme, the largest school lunch programme in the world covering 12 crore

children, has been enhanced from Rs. 3,345 crore in 2005-06 to Rs. 5,348 crore in 2006-07.

- Provision for Rajiv Gandhi National Drinking Water Mission (for rural drinking water supply) has been increased from Rs. 4,050 crore to Rs. 5,200 crore between 2005-06 and 2006-07.
- Allocation for National Rural Health Mission, launched on April 12, 2005, increased from Rs. 6,731 crore to Rs. 9,065 crore between 2005-06 and 2006-2007.
- Against an estimated outlay of Rs. 6,250 crore for the Jawaharlal Nehru National Urban Renewal Mission for 2006-07, Rs. 4,595 crore has been provided as grant component.
- Old age pensions granted to destitute persons of 65 years and above under Rs. 75 per month to Rs. 200 per month. The Central Grant allocated on this account is Rs. 2,800 crore during 2006-07.
- Allocation for schemes exclusively for welfare and development of SCs and STs has been enhanced by 14.5 per cent to Rs. 2,902 crore in 2006-07.

### The Employment Assurance Scheme (EAS)

The Employment Assurance Scheme (EAS) was introduced on October 2, 1993, in selective rural areas. The aim of this scheme is to provide work in the form of unskilled physical labour to all the employment seeking men and women (of ages between 18 years to 60 years) in rural areas. The expenditure on this scheme is shared by the centre and the states in the ratio of 80: 20. From a maximum of 2 members from one family can be benefited under this scheme. Since

January 1, 1996, the integrated Jawarhar Razzar Yojana (IJRY) has been merged with Employment Assurance Scheme. (EAS).

Role of NGO's in the filed of sustainable finance, employment and poverty alleviation in Kumaun

### Case Study

Chirag- Central Himalaya Rural Action Group

The Central Himalayan Rural Action Group (Chirag) is a society registered under the Indian Societies Registration Act of 1860. Registration No 16928, dated 29<sup>th</sup> July 1986.

### Main Objects of Chirag

1. Education and Capacity-Building
2. Health Care
3. Natural Resource Management
4. Facilitating Assess to credit, skills, and markets for both on- farm and off farm efforts.

Community based institutions, ranging from self help groups (SHGs) to Gram Panchayats, are central to the strategy in all there initiatives excepting curative health services) and we make a special effort to strengthen these institutions by encouraging participation and transparency.

### Micro-Credit

There are 144 self-help groups (SHGs) with a total membership of 1926. Three-fourths of the members are women. The cumulative

savings of there groups is Rs. 2953730 and the average saving per member is Rs. 1524. Half the SHGs have a cash-credit limit with their banks. Members borrow from the savings of the group or utilize their cash-credit limit. The interest on loans varies from 11.5% to 36% with an average interest rate of 21%. A majority of the groups charge 24% interest on loans. Reetha area accounts for the largest member of SHGs, and an average membership of 12 per SHG. Each SHG in Reetha area meet, on average, 10.5 times during the last year with each member attending 90% of the meetings.<sup>7</sup>

Chirag have been concerned about the relative lethargy of SHGs and the area teams have made a special effort during the year to encourage the utilization of credit for productive purpose. During the course of the year, credit transacted by the SHGs from their savings exceeded Rs. 16 lakhs and credit taken from banks was close to Rs. 11 lakhs. The commonest reasons for taking out a loan, in order of priority are.

- Agriculture, Annual Husbandry and Income Generating Activities.
- Suyalbari- Agriculture, Health and Education
- Reetha- Household expenditure, Agriculture and Health
- Kasiyalekh- Income Generating Activities.

Table-23  
Progress of Savings in Different Areas, March 2006

S. No.	Working Areas	No. of SHGs	Total Savings in Rs.
1	Naukuchiyatal	280	550049
2	Suyalbari	601	501018
3	Bageshwar	264	79022
4	Reetha	518	1144626
5	Kasiyalekh	263	661015

Source: Chirag Annual Report 2005-06 Pages 28-29.

### Case Study

Success Story of Sustainable finance, Employment and Poverty Alleviation in Kumaun

Success Story of SHG- Pratap Vikas Sheel SHG, Bohrakot, was formed in 1999 and has 12 members. The members each save 100 rupees per month and the group's total savings is now Rs 112000. Since the formation of the group, cumulative loan of Rs 525000 have been given out from savings. The group decided to improve the breed of their livestock to increase milk production. They later helped from a dairy cooperative in their village that buys milk from members of the SHG as well as other in the village. The SHG members use the services of the animal husbandry department and have their livestock immunized periodically. The dairy currently procures 35-40 liters of milk a day. The chairperson, Shri Munna Lal, believes that the SHG has helped make its

members confident and provided them with a means of getting useful information. The SHG is in a sound position today and has its own distinct identity in the village. Interestingly, this SHG rewards its treasurer each year for his honesty and transparency.

### Success Story of K.S.S. and Vikash Groups of Sadhu Nagar Village (Block Sitarganj, District U.S. Nagar

K.S.S. started work on women empowerment through formation of SHGs. The main objectives of K.S.S. are following.

- To provide a common platform to discuss and solve the problems of poor people of Sitarganj Block.
- To help women income generating activities.
- To provide sustainable easy and timely finance.
- To link SHGs with banks and other financial institutions for self employment and income opportunities.

Presently number of SHGs work in Sitarganj Block in District U.S. Nagar. KSS organizes regular monthly bi-monthly meetings, training exposure and local resource based income generating programmes at regular intervals. The women SHGs are also being motivated towards taking initiatives and decisions related to management of their local resources.

In village Sadhu Nagar of Sitarganj Block District U.S. Nagar. K.S.S. helps the village women to form SHG. 15 women of village become the member of SHG and they named there SHG Vikash. The Chairperson of this group is Lakshmi Devi.



Lakshmi Devi and her village people rising have for a long time. Earlier, they used to do only there labour work. One day Jaya Misra and there NGO members advised them to raise hens for commercial purpose. The members of KSS also give advise to village people how to look after the hens and sustain the block for this purpose KSS help this SHG to link with Bank of Baroda reason with the help of Rs. 40,000 bank loan they start there own poultry farm in there village.

Now this SHG is in a very good position today and the financial position of this SHG is sound as a result the economical and social position of this group women is good.

Impact:

1. In India economic and social independence is the most prominent means of women empowerment with forward for economic and Social Independence.
2. Now women of (VIKASH) SHG to be recognized as an economic entity in village
3. With the help of proper finance facilities, training and vocational assistance women of Sadhu Nagar able to develop there own poultry farm.
4. This SHG build unity among women of Sadhnagar.
5. This SHG provide introdoon for production and Consumption
6. The success of this SHG was the first step to Micro- Enterprise Development in Sadhunagar.

Case Study of CHEA Micro Enterprise Development-

This was a continued study under the Asian Development Bank (ADB) funded project. The grant has been extended to CHEA through Uttarakhand Renewable Development Agency (UREADA). The study was conducted in three phases is summarized as under.

Para I: The first phase was conducted in February to March 2006. During the first phase of the study inventory of all defunct/working watermill of Almora 2082 watermills were surveyed of which 339 were found to be functional. The detail of the surveyed watermills is given as under.

Table -24  
Blockwise detail of Watermills

Block	Total watermills	% Functional	% year Round	% Seasonal	% Defunct
Chakhutia	116	39	51	49	61
Bhikiyasain	218	2	00	100	98
Takula	185	17	26	74	83
Hawalbagh	369	01	20	80	99
Lamgara	321	31	46	54	69
Bhaisiyachana	119	10	50	50	90
Dhaulavedi	160	43	48	52	57
Syaldey	260	19	44	62	81
Tarikhet	92	12	73	27	88
Sult	82	10	63	37	90
Dwarahat	160	3	25	75	97
Total	2082				

Source: Chea Anual Report 2007.

The main reasons for the defunctness of the watermills were also attempted during the study that is as follows.

Migration: As majority of the people have migrated from the villages that also include the watermill owners, therefore, the watermills are defunct.

Ownership : As the watermills were owned by the grandfathers of the present generations and now as there are many owners of the watermill, therefore, there is a ownership dispute due to which they.

Flood: Due to flood most of the watermills that were on the main rivers have been washed out.

Low discharge: The main reason for the defunctness of watermills in the district is due to the low discharge in the water bodies is, streams, and rivers etc.

Phase II- During the second phase, the following works were conducted:

### Formation of District Level Water Mill owners Association (WMA)

The Almora Uttara water mill development Society was organized on the 24<sup>th</sup> of May, 2006 at Ranikhet. 11 block level elected/nominated representatives of the district attended the meeting. The society was formed under the supervision of Mr. Karan Singh Mehra (Block Pramukh, Tarikhet) and was registered under the Society Registration Act, 1860.

### Training to water Mill Association and Federation:

The following were provided to the WMA and WMF:

#### 1. Training on Estimation of Energy:

The first training of watermill association under the assignment was organized on the 26<sup>th</sup> and 27<sup>th</sup> of June 2006 at Lamgara. The Chief Guest for the programme was Prof. S.P. Singh, Vice Chancellor, Garhwal University/Governing Council Member of Central Himalayan Environment Association (CHEA). The training was attended by 11 water mills owners of which 7 were members of the district watermill association. The training was to give an idea to the watermill owners about the discharge measurement for estimation of energy so that the owners could estimate the potential energy of their watermill and according plan for enterprise development.

2. Training on Enterprise Development: The second training programme on enterprise Development was organized at Lamgara from the 28<sup>th</sup> to 3<sup>rd</sup> July, 2006. The participants were briefed about the traditional enterprises that were prevalent in the hills and the reason for their degeneration. They were also told about the new enterprises that could establish from the upgraded water mills that are proposed under the project. In addition the participants were also briefed about the functioning of the unupgraded watermill and how the mechanical energy is converted into electrical energy along with calculation of powers; necessary requirements for the upgradation power; necessary requirements for the up gradation of the watermills (head, discharge, etc.); different turbines used in modern watermills and the various enterprises that could be developed from watermills. During the training programme, the participants were taken for an exposure visit to one of the upgraded water mill by UREDA located at Bachkande in Lamgarah block.

Training on operation and maintenance of watermills: The final training on maintenance and operation of training was imparted by Dr. Alok Sharma, Department of Electrical Engineering, Birla Institute of Technology Bhimtal. The participants were briefed about the different machine parts and their maintenance and operations.

Phase III: During third Phase on operational manual for the maintenance of the water mills was developed by Chea and submitted to UREDA Almora and was also provided to the members of the water mill associations.

## Ajeevik: Uttarakhand Livelihood improvement project for the (ULIPH)

An Initiative for sustainability through livelihood interventions. The international fund for agriculture development (IFAD) assisted Uttarakhand Livelihood. Improvement Project for the Himalayas is being implemented in 5 districts of Vikas Samiti has been constituted under department of Rural Development to implement the project in Uttarakhand in association with partner NGO's and community. The primary objective of the project is to improve the livelihoods of target groups along with improvement of livelihood opportunities and capacity building of the local institutions concerned with livelihood improvements. The first phase of the project was initiated in Uttarakhand in the year 2005 and in March 2005 CHEA was assigned the responsibility of facilitating NGO in Kapkot Development Block for Bageshwar District.

### Activities Undertaken

SHG formation: During the first year of implementation in 26 village 49 new SHGs were formed. The participation of women groups while only two mixed SHGs have been formed. The detail of the SHGs is summarized in the table below.

SHG	CCL	Total Savings Rs.	CCL Amount
49	35	297497	875000

## PAHAL a NGO in the field of Micro-Finance

PAHAL is a voluntary Non government organization working in the field of social welfare, Rural & Slum area sustainable Development, Environment protection with the tool of self reliance, Micro Saving, Micro-Financing. Capacity Building of needy people specially women, Awareness programmes, Co-operation & Co-ordination.

History- PAHAL a non govt. organization was established in 1988, with the object of social welfare, Environment Protection, and rural development. It is worth mentioning from the very inception, that, the society has paid special attention towards income generation activities, in the area, for the sustainable development of weaker section of society. PAHAL in using SHG total of Micro Saving and Micro financing and has formed more than 3000 Nabard sponsored SHGs. (Highest in Uttarakhand) In 1992 Pahal had started a unique initiative anti polythene carry bags Awareness movement, for the environment protection and pollution control in area. Till now its impact has spread all over the region. Earlier PAHAL has organized many programmes for Environment protection with active public participation. PAHAL is publishing two magazines one is bimonthly magazine.....Naipahal in Hindi language and another is Swayam Sahayata Samooh Samachar monthly magazine.

Pahal is a alone partner and member of two prestigious international micro credit institutions one is micro-credit campaign USA and another is planet Finance France/India for poverty alleviation in Uttarkhand. Pahal has promoted highest number of SHGs with the

support of National Bank of Rural and Agriculture Bank NABARD) in Uttarakhand. These groups are also being used for social Mobilisation.

Important- PAHAL has been awarded "Micro finance process Excellence Award 2005" Micro finance continuous process excellence award-2006" by ABN Amro Bank and planet finance for Micro finance services.

There is another significant success shown of our Microcredit programme when PAHAL supported on SHG named Surabhi SHG has been selected as best performing SHG in Uttarakhand by NABARD. This SHG has been awarded by Union Finance Minister Mr. P. Chidambaram in new Delhi. PAHAL has been also facilitated by Hon'ble Chief Minister of Uttarakhand Mr. Narayan Dutt Tewari and state bank of India Dehradun Region for remarkable micro finance services to the disadvantage section of society.

## Objectives

1. Rural Development and Social Welfare programmes.
2. Women empowerment and literacy promotion.
3. Micro Saving and Financing, self help group promotion.
4. Income generation activities, REDP Training and Employment.
5. Health, hygiene and Sanitation Awareness programmes.
6. Environment Awareness programme for better living.
7. National Integration and Communal Harmony programmes.

## Achievements

1. Working in 100 villages and slum areas of two districts of Uttarakhand state. Approached more than 10000 families.



2. Mobilized more than 150 lac rupees (3500000\$) saving and credit.
3. Promoted 300 self help groups. These groups are being used for social mobilization.
4. Providing free primary Education to 1200 students in 15 education Guarantee Centre in Haldwani and Ramnagar Block.
5. Running Local initiative Health Project in 55 villages of Jaspur.
6. Providing life Insurance to poor with the help of LIC of India and ICICI prudential Insurance Company.

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Aajeevika an Introduction  
Livelihoods Improvement Project for the Himalayas  
Uttarakhand Gramya Vikas Samiti



Plate 1: SHG training programme by Aajeevika in Almora district.

The Uttarakhand Livelihoods Improvement Project for the Himalayas, briefly known as Aajeevika, is being implemented by the Uttarakhand Gramya Vikas Samiti (UGVS), a society registered by the Government of Uttarakhand under Societies Registration Act, 1860. The Rural Development department is the Nodal Agency for the project. The Society will be eventually owned by Community Institutions the target group of the project,

### Objective Aajeevika

To improve the livelihood of vulnerable groups in a sustainable manner through promotion of improved livelihood opportunities and

strengthening of local institutions that relate to livelihood development.

## Project Area of Aajeevika

Aajeevika will work in 17 Development Blocks in 5 districts of Uttarakhand and will cover 40 percent of the total population of each related Blocks with the help of NGOs.

Table-25  
Project Districts      Project Development Blocks in  
Uttarakhand

1	Almora	Bhaisia Chhana, Dhauladevi, Lamgara
2	Bageshwar	Kapkot and Bageshwar
3	Chamoli	Dewal, Ghat, Narayanbagar, Dasholi
4	Tehri	Jaunpur, Pratapnagar, Devprayag and Bhilagana
5	Uttarakashi	Mori, Naugaon, Danda, and Purola

Source: Aajeevika Office Data.

1. Total number of households to be covered	42690
2. Approx number of community institutions to be supported	2846
3. Approx number of villages to be covered	1162

Intervention period with target households

Aajeevika will work with target households of each project village for 5 years. The first year will be the initiation phase of capacity building and institution strengthening; the 2<sup>nd</sup> and 3<sup>rd</sup> and 4<sup>th</sup> years are the intervention phase and 5<sup>th</sup> year will be takeover monitoring phase.

### The Aajeevika Approach

- From target households into institutions and build their capacity to select livelihood activities most suited to their resources, skills, and interests.
- Emphasize the role of women and build space for them to express their needs and to increase effective participation of women in local institutions and decision making process within community.
- Increase people's awareness of conservation and regeneration of natural resources land, water, forests and biodiversity.
- Establish effective and appropriate delivery systems for inputs through multi-stakeholder coordination for thrift, savings, credit, microfinance, and micro-insurance to create a supportive environment for enterprise related livelihoods.

### Implementation Strategy of Aajeevika

The project will support development of micro-enterprise based livelihoods through the sub-Sector Business Development services (SBS)

approach. Uttarakhand Gramya Vikas Samiti (UGVS) will follow a twin track approach for implementation through a project Management Unit (PMU) and a social venture capital company (SVCC) to be registered under the company's Act. These two entities of Aajeevika will have their respective district level offices in each project district. The twin track system will work in the following manner.

1. Project Management Unit (PMU) – Empowerment and capacity building leading to SHG mobilization and linkages to bank/cooperative network through NGOs.
2. Social Venture Capital Company (SVCC)- Provision of business promotion, technology and business services related functions including demonstrations, provision of venture capital and facilitating flow of credit through various providers.

Monitoring: A steering Committee has been set up at the state level that will monitor the project twice a year steering committees at Districts level and coordination be set up which will meet on a quarterly basis to review progress, monitor convergence and provide necessary guidance.

Project Components of Aajeevika- Empowerment and capacity-building of communities and support organizations- Enhance the capacities of community organizations such as self help groups, SHG federations and van panchayats to make informed choices, do activities in a micro-enterprise mode.

## Livelihood Enhancement and Development

- Demonstrating and supporting on farm and off- farm opportunities for livelihoods and establishing forward, backward and horizontal linkages for enhancing livelihoods of poor households. Build demonstrations of various models of enterprise-based livelihoods based on local resources, markets and skills.
- Intervention in areas such as agriculture, horticulture, soil and water resources, livestock development, forestry development, and ec-tourism according to sub-sector business development service approach.

### Livelihood Support Systems

- Establishment of livelihood support unit to enhance flow of credit to SHGs and micro-enterprises.
- Support to Rural Financial Institutions including PACS, who are interested in tending to project promoted enterprises.
- Providing business development services and social venture capital financing to small and medium enterprises that come up to provide forward and backward linkages to support the micro-level activities.
- Action research, policy studies and advocacy contributing towards creating a more favorable policy environment for broadening the available range of development options for the poor and the women in the project area.

### Innovative Features of Aajeevika

- Twin track implementation mechanism to ensure that the enterprise development component is handled in a business like manner. It

would minimize the prevailing welfare oriented subsidy driven approach.

- The funding pattern of the project is structured in such a manner that it offers an in built challenge for convergence to the project to garner at least 28 percent i.e. Rs. 68 crores of the project outlay from formal financial institutions through SBS approach.
- UGVS (Uttarakhand Gramya Vikas Samiti) to be represented progressively by representatives of SHG federation from year 3 of the project onwards which would lead the UGVS management to be taken over by community institutions by the end of the project.
- Combining the sub-sector Analysis with business development services strategy of SHG in an innovation that would contribute significantly to livelihood enhancement.

### Expected outcome of Aajeevika

- Approximately 2846 participatory community institutions established, operational and meeting the livelihood needs of poor households in the project area.
- Capacity building of target population, especially women and poorest, thus enhancing their ability to plan and manage their own development effectively.
- Effective savings and credit operations by SHGs of poor households and SHG Bank Cooperative network linkages established.

- SVCC (Social Venture Capital Company) continues equity/near equity financing while making exit from investments made previously to ensure reflow for new investments.
- Widespread recognition and adoption of sub-sector business development approach for promotion of micro enterprises.
- Policy issues affecting livelihoods of poor identified and studied. Essential reforms incorporated for creating a conducive policy environment for livelihood enhancement.



Table-26

Progress Report of Aajeevika, Bageshwar District in October, 2007

		Aim	Last month	Current month Oct	Cumulative Development
1	No of Villages	207	207		207
2	No. of family	13333	13333		13333
3	Total groups	763	365	12	377
4	Total Savings of groups	820000	1321992	93074	1415066
5	Internal loan groups		267	47	314
6	Member of loans		803	81	884
7	Total groups of internal loan	1861500	778007	2639507	
8	CCL	1600000	1597700	59000	1656700

Kassar Trust a NGO: Working with Aajeevika and Ratan Tata Trust for the social and economical upliftment of Himalayan People

Kassar Trust deeply concerned for the problems of Himalayan Region people. Specially concerned for the problems of water and Sanitation. Kassar Trust Promoting the innovative technology for drinking water and sanitation and mobilizing people to help themselves in scattered hamlets and Villages in the hills.

Kassar Trust Working in the fields of social and economical upliftment of people in middle Himalayas since 1985. Kassar Trust is a Registered Charitable Trust registered under section 12 A of the Income Tax Act.) Kassar Trust Registered with the registrar of Trust, Pondichery No 352 dt. 01/08/1985. The FCRA registration No. of Kassar Trust.

Kassar Trust Promoting the innovative technology for drinking water and sanitation and mobilizing people to help themselves in scattered hamlets and villages in the hills. Unlike many NGOs who choose roadside villages, Kassar Trust, as a policy, selects remote and in accessible villages. Kassar Trust activities include provision of water and sanitation for village people and improved agricultural and horticultural practices through technical know how, poly houses and plastic-lined tanks for supporting kitchen gardens, organizing health camps and promoting the SHG concept in Hill area.

Kassar Trust activities focused around the daily lives of the people and aiming at Generation of employment, easy finance facilities for poor people.

Kassar Trust is deeply concerned with the basic needs of middle Himalayas people in hilly areas there is no big industry or trade for local mass. The main source of livelihood is agricultural in Kumaon Region. Some of the people are in service including government and the armed process, but the problem of unemployment is very deep rooted in hilly areas.

In 2007 Kassar Trust Start a project with Aajeevika- an IFAD (International Fund for Agricultural Development) assisted project for capacity building of community based organizations and self help groups. The main objective of Aajeevika is to improve the livelihood of vulnerable groups in a sustainable manner through promotion of improved livelihood opportunities and strengthening of local institutions that relate to livelihood development".

The cumulative no. of SHGs with Bank linkage are given below (under the Aajeevika project



Plate 2: Training programme of kassar Trust Bageshwar.

1. With the help of this project Kassar Trust able to Empower local people financial now people aware there need and responsibility emphatically.
2. This project provides employment opportunities with the help of local resources for youths.
3. Now people know the importance of savings for there future the project is able to develop the habit of savings among village people.
4. Now they have bank accounts for their groups.
5. Large participation in the project by hill women.
6. Membership in SHGs mostly come from the poorest section of society.



Plate 3: Awareness progress of kassar Trust in a village of Bageshwer.

7. In SHGs the members are fully aware about the concept of Joint Liability.
  8. SHG Intermediation led to reduction in the time spent by the bank staff of NASR Bank and SHG intermediation reduced transaction costs of the Bank.
  9. Income generation programmes to be popularized along with SHG concept.
  10. Now women of SHGs recognized as the economic entity in villages.
  11. SHG build unity among women for social and economical upliftment for themselves.
  12. With the help of SHGs people of villages developed new opportunities for their employment and better internal communication and interaction for their needs.
  13. Now SHG members participate with NGO people in decision-making, planning, identifying problems and formulation of alternatives.
  14. Now women of SHGs participate in economic, social, cultural and other activities for personal and group.
1. Some of the SHGs members are seeking monetary help and subsidy without any work. This attitude is not good for capacity building and employment generation activist for group members at first we have to change this attitude of SHGs members.
  2. Some of the SHGs need more supervision after the formation because of their own conflicts in village level.

3. There is too much work for NGO people like documentation of SHGs Records, follow up visits and monitoring operations.
4. Most of the SHGs members are illiterate that's way they need regular supervision and monetary control system by NGOs.

### Case Study of Three Villages

A Initiative for clean Drinking water, Sanitation and Micro finance with Ratan Tata Trust in Bageshwar District.

Kassar Trust, working with Ratan Tata Trust for providing clean Drinkaing water, Sanitation and Micro Finance in Uttarakhand. In this project Ratan Tata Trust working in two districts of Uttarakhand. In Bageshwar district Trust select three villages of Garur Block. The detail report of villages and financial progress of SHGs are following.

Village	:	Jhakra
Block	:	Kanda
Organization	:	Sri Ratan Tata Trust
District	:	Bageshwar
No. of Families	:	120 families in village
Population	:	720
Location	:	The village is situated near Kamedi Devi in Bageshwar-Bajnat Road.

Table-27  
Total No Period till Aug 2007

Village	Name of SHG	Date of formation	Bank name & account no.	Members No.	Monthly Saving	Total Saving	Total inter loaning
Jhakra	Harsaim Devta SHG	6-4-2004	NAGB Khakar 3014	11	10	4290	1200
Jhakra	Maa Bhagwati SHG	7-4-04	NAGB Khakar	19	10	7600	
	Total			30		11890	4900

Nainital Almora Gramin Bank NAGB

### Socio Economic Status of Village

In Jhakra village there are 120 families and the total population of this village is 680 out of which 339 are female and 381 are male. Out of the total number of households 68 households are above the poverty line and 52 households are below the poverty line. The percentage of literacy is 54%. The main source of livelihood is agriculture work in village due to lack of job opportunities in this region some village people are migrated to big cities and towns for jobs. Some of the villagers are in Government services including Armed forces services. There is no specific industry or Trade in village. The SHG progress report of Jhakra village is following.





Plate 4: SHG meeting in Garur block by Hill Welfare Society in Selkhola.

This SHG provide igniter loan @ 1% monthly interest for there members.

NAGB: Nainital Almora Grameen Bank

### Case Study of Agar Village

Village	:	Agar
Block	:	Kapkot
Organization	:	Kassar Trust
Supported by	:	Ratan Tata Trust
District	:	Bageshwar
No. of Families	:	82
Population	:	540
Location	:	The village is situated on the district board road renovated as Jeepable road in the same alignment connected with Baijnath.



In Agar village Agar there are 82 families and Total population of the village is 540 out of which 256 are female and 284 are male. Out of the total no of households are below the same. In Agar the percentage of literacy is 70%. The main source of livelihood is agricultural work due to lack of job opportunities in this region same jobs. Some of the villagers are in Government services including Armed forces Services. There is no specific industry or trade in village. The SHG progress report of Agar village is following.

Table-28

Period till August 2007

Village	Name of SHG	Date of formation	Bank name & account no.	Members No.	Monthly Saving	Total Saving	Total inter loans
A	Saru SHG	9-2-04	NAGB Garur	14	25	11025	9000
G	Yamuna SHG	5-3-04		10	20	8800	9000
	Jamuna SHG	5-4-04		10	20	5880	14500
A	Bhumiyal SHG	10-5-04		07	20	10920	12800
R	Saraswati SHG	9-4-04		14	10	4250	7000
Total				53	95	40875	52300

### Case Study of Anna Village

Village : Anna  
 Block : Garur  
 Organisation : Kassar Trust  
 Supported : Ratan Tata Trust  
 District : Bageshwar  
 No. of Families : 95  
 Population : 325

Location : Anna Village is in Garur valley it is 2 km. from Tit bazaar, Garur. Garur is 23 km. from district head quarter Bageshwar.



Plate 5: SHG meeting in Anna village Bageshwer.

Socio Economic States of Village: The village Anna consists 95 families as per survey conducted by me. Anna 14 families are schedule cost. The total population of Anna is 625 out of which 317 are female and 308 are male. In Anna 55 families are above the poverty line and 40 houselhods are below poverty line. The percentage of literacy is 75%. The main source of livelihood is agricultural work. Some of the villagers are in service including government and the Armed Forces Services. There is no specific trade or industry in the area.

The SGG progress report is following

Table-29

Period till August 2007

Village Area	Name of SHG	Date of Formation	Name of Bank	Member no.	Monthly saving	Total saving	Inter loaning
A G A R	Godeshwari	2-2-04	NAGB 1781 Garur	14	100	42700	135000
	Jyoti SHG	2-3-04	4910	15	20	11400	36000
	Phoolwari SHG	4-3-04	4908	11	50	13900	24900
	Manasa SHG	6-5-04	4909	13	20	10148	19100
Total				53	190	78148	215000

## Impact of Micro Finance

SHG are able to develop the saving habit among the group members, savings enhance the self-confidence of the members. In some groups there is a concept of "save first no credit without savings"

- Rate of interest is very low for inter loan, rate of interest is vary from group to group.
- SHGs provided loons for income generation activities or for acquisition of assets for agriculture work and consumption.
- SHGs provided an alternative credit system people are avoiding borrowing money from money lenders at a higher interest rate.

- Now people know the importance of local resources for enhancing employment and income generation.
- SHG intermediation led to reduction in the time spent by the bank staff of NAGB. (Nainital Almora Gameen Bank).
- With the help of SHGs people of villages developed now opportunities for there employment and better internal communication and interaction for there needs.
- "The self-help group \*SHG) concept helps members to develop both economic and social strengths. The collateral substitute positively influences the resources of the SHG, whereby members meet their contingent obligations without going to money-lenders/private sources. The financing banks are convinced about the collective wisdom of the group while lending, and its persuasive capacity as also group pressure for recovery of loans. The repeated interaction among bank officials and the groups helps in developing trust and confidence.
- With the help of NGOs, SHGs functioning smoothly and NGOs also help SHGs in resolving mutual conflicts among the group members. Now in village SHG members looking forward to solved the problem of unemployment with the help of micro finance in the times to come. It is possible only by there own efforts, better coordination and co—operation with SHGs, bank and NGOs.

Hill Welfare Society

Success Stories Self help Groups in Garud Block, H.W. Society

NABARD sanction Hill Welfare Society to operate 25 SHGs in 2004. Volunteers of the society touched the poor people of Garud block and explained them about self help groups and also explained the benefits of SHGs, importance of SHGs in rural and underdeveloped areas.

Initially the groups took off at low pace of operating, reason being that negative propaganda of such groups, people had a misconception that these groups are as the same as chit funds to misguide them. Hill Welfare Society has played a crucial role in formation of SHGs in Garud Block of District Bageshwar its representatives especially Ms. Janki regularly met people and convinces poor people about the advantages of formation of SHGs but people did not take their suggestion seriously and they ask such questions like-

- As our savings are in safe hands
- What amount we have to deposit per month.
- What are the main advantages to join a SHG
- Are you going to arrange loans for us
- What is interest rate on your loan
- What formalities we have to do for loan
- What is inter-loan
- What will be the rate of interest of loan
- What is the term of loan and inter-loan
- One woman asked to Ms. Janki how much would be the subsidy in it.

Volunteers organized regular meeting in villages and explained to people that their monthly savings deposited for six months in a joint account will privilege them with a CCL in bank as a result many people joined SHGs in Garud Block for the social and economical upliftment.



Plate 6: Ku. Janki volunteer of hill Welfare society in a village of Gaur block.

Table-42

Month October-2007 Hill Welfare Society Garur (Bageshwar)

Block	Formation Date	Total Savings (Rs.)	Date of opening of SB	Name of the Bank	SB Account No.	Amt. of interloaning Account	Whether CCL linked Yes/No	Amt. CCI (Rs.)
Garur	20-9-04	45866	20-9-05	DCB	4972	35000	Yes	87000
Garur	20-2-04	17000	20-12-04	DCB	5013	25000	Yes	20000
Garur	20-12-04	17000	20-12-04	DCB	5014	15000	Yes	
Garur	6-1-05	17000	6-1-05	DCB	5026	25000	Yes	30000
Garur	6-1-05	17000	6-1-05	DCB	5027	30000	Yes	30000
Garur	11-1-05	17000	11-1-05	DCB	5029	30000	Yes	30000
Garur	11-2-05	17100	14-2-05	DCB	5042	25000	Yes	15000
Garur	7-1-05	17400	14-2-05	DCB	5043	20000	Yes	15000
Garur	10-1-05	17000	14-2-05	DCB	5024	18000	Yes	18000
Garur	12-12-05	18500	22-12-05	DCB	5017	25000	Yes	30000
Garur	13-2-04	21100	07-03-05	DCB	5060	30000	Yes	30000
Garur	25-3-04	18300	30-03-05	DCB	5076	40000	Yes	30000

Garur	02-04-05	17300	19-5-05	DCB	5091	18000	Yes	15000
Garur	13-02-05	14300	24-5-05	NAKG	2870	17000	Yes	15000
Garur	15-3-05	31550	21-03-04	SB I Gagrigo	01170062 813	40000	Yes	27000
Garur	20-3-05	21080	04-04-05	II	01170068 17	30000	Yes	25000
Garur	2-4-05	6900	27-04-05	II	01170062 836	25000	Yes	18000
Garur	2-5-5	15850	28-05-05	II	01170062 846	30000	Yes	21500
Garur	10-08-05	12130	16-08-05	II	01170062 67	35000	Yes	70000
Garur	20-11-04	19150	20-11-04	Nakg. Garur	2720	34000	Yes	15000
Garur	10-12-04	15950	13-12-04	Nakg	2728	35000	Yes	25000
Garur	25-7-05	37800	02-09-05	SBI Garur	01170063 394	80000	Yes	100000
Garur	15-06-05	41400	26-11-05	Nakg	2990	35000	Yes	25000
Garur	07-06-05	10300	20-02-06	DCB	5398	17000	Yes	10000



Garur	05-06-05	7850	20-02-06	DCB	5397	15000	Yes	10000
Garur	07-03-06	7700	0703-06	SBI Gagrigo	01170062 909	4000	Yes	
Garur	28-04-06	15300	28-04-06	DCB	5475	10000	Yes	
Garur	28-09-06	5500	10-11-06	Nakg	2003783	15000	Yes	15000
Garur	02-06-05	16450	29-06-05	DCB	5107	42000		30000
Garur	20-04-05	3950	08-05-05	SBI Ggrigol	01170062 829	2000		
Garur	15-12-06	7600	17-0807	NAKG Gaur	4051	2000		30000
		548226				804000		766500

Details of Self help Group Formed Under NABARD Ship Programme

Under the guidance of (HWS) 31 SHGs established in Garur Block in Bageshwar Districts all groups work successfully. Volunteers of hill welfare society met the people time to time and motivated them for savings. As on October 2007 total savings of all 31 SHGs was Rs. 548226, amount of inter loaning Rs. 804000 and the amount of CCL was Rs. 766500.

The SHGs working successfully in Garur Block in Bageshwar, every month there is a meeting organize by Hill Welfare Society, it is a platform for discussing problems of SHG group members. In Garur Block the SHGs of Garur Block provides inter loans to his members in easy interest rate. The recovery of inter loans are hundred percent in Garur Block in Bageshwar District.

### Success Story of Rageshwari SHGs in Garud Block Distt. Bageshwar

In Garud Block of Bageshwar, some youth started tailoring work and they established a tailoring shop in Garud market they earned some money by tailoring work but there have no saving account in the bank.

From the information derived by interpretation of table that under the guidance of H.W.S. 31 SHGs established in Garud block of Bageshwar District and all groups work successfully. Volunteers of Hill Welfare Society met the people and motivated SGFs members availing inter-loan for there needs as on October 2007 the amount of inter-loon was Rs. 804000 and the amount of C.C.L. was 766500.

The SHG working successfully in Garud Block of Bageshwar every month there is a meeting organized by H.W.S. SHG meeting is a platform

for discussing problems of group members and try to solve them. The SHG provides inter-loans to his members in easy interest rate. The recovery of inter-loan is 100% in all SHGs. Out of 31 SHGs 25 SHGs are linked with C.C.L. as on 08, 2007.

Volunteers of Hill Welfare Society met these people and motivated them to form a SHG for fulfilling financial needs. (Saving, Credit etc.). They formed a SHG and named it as Rajeshwari SHG. All 11 members of SHG were ready to save Rs. 50 per month in a joint account in Almora District Co-operative Bank. The members of Rajeshwari SHG nominated Mr. R.P. Joshi as the president of the group for smooth functioning.

Under the guidance of H.W.S. regular savings started in the group and the members of the group begins availing inter-loans for there business. The best part was that the recovery of the loan went regular and displayed after six months of savings Almora District Co-operative Bank assess the progress of the SHG and found that group is eligible for CCL of Rs. 30000/- and sanctioned this limit immediately. With the help of this CCL amount members of SHG purchased cloth from wholesale market so that along with tailoring they can earn few extra bugs. Now need of larger CCL is being felt by the SHg members for expansion of the business. For new large CCL negotiation with the bank is going on and bank has responded positively.

The success of Rajeshwari SHG in the fields of sustainable finance, employment a generation, and poverty alleviation motivate all the SHGs and poor people in Garud Block of Bageshwar District.

Table-30

Period till August 2007

Name of SHG	Village/Block	Formation Date	No. of members	Total savings	Name of Bank	SB A/c no	Acc. Of inter loaning	Amt of CCL Rs
Rajeshwari	Garud/Garud	2-6-05	11	16450	DCB Garud	5107	42000	30000

### Success Story of Divyashwary SHG in Manora Village

Under the supervision of Hill Welfare Society (HWS) Divyeshwarya SHG was established on 31<sup>st</sup> March 2005 in Manora Village of GFaruda block. This SHG consist of 12 members which is headed by Mr. Prem Singh. The volunteers of HWS help Divyashwary SHG to open a saving A/c in SBI Gagarogole all the members of the group saves 50 rupees per month and deposit in the saving account of the group. The total saving of the group is 35000 rupees and CCL of the group is 27000.

The group is successfully working in the Manura village, every month there is a meeting organized by SWS. These meetings provide a platform for discussing the problems of SSG members. The SSG provides inter loan to its members at easy interest rate for income generating activities (For Micro Enterprises, Agriculture Horticulture, Dairy and Poultry etc.) and for consumption needs like marriage, in less etc. The recovery rate of these inter loans is 100% with the help of these loans the SHG members of Manura village are able to meet out there financial needs in a sustainable manner.

The group is successfully working in Manura village every month there is a meeting organized by HWS. These meetings are a platform for discussing problems of SHG members and try to solve them. This SHG provides inter-loans to his members in easy interest rate. The recovery of interloan is 100% in this SHG. This SHG provides inter loans for immediate needs like marriage, illness, and other consumption needs. SHG also provide loans for income generation activities like loan for micro-business, agriculture, Horticulture, Dairy and poultry etc.

With the help of SHG people of Manura village are able to meet out there financial needs in a sustainable manner.

Table-31

Name of SHG	Village/Block Formation Date	Formation	No. of Members	Total Savings	Name of Bank	Savings A/c no.	Amount inter loaning	Amount of CCL
Divyashwary	Maaura/Garud	15-3-05	12	31550	Gazrigol	0117 0062 813	40000	27000

### Sarvodaya SHG

Sarvodaya SHg established on 20/12/2004 in Salokhola Village in Garud Block of District Bagshwar. There are 10 women members in thsi group. The members of Sarvodaya group nominated Mrs. Dhani Devi a the president of the group. Under the guidance of H.W.S. regular savings started in the group every member save Rs. 100 per month in this group and the members of the group avails inter-loan for there needs after six

months of savings Almora District Co-Operative Bank assess the progress of the SHG and sanctioned Rs 20000 C.C.L. for the group.

The members of this group are emotionally related because of one incident. A women of this group was not able to complete the construction of her help constructed house because of money problem.

Mrs. Dhani Devi an adult motherly figure with grate potential of leadership come forward and provided Rs. 15000 inter-loon for the construction of her house from the joint savings of the group. Today the house is a sweet and cozy home of a family. inter-loon is noe returned in small installments.

Table-32

Name of SHG	Village Block	Formation Date	No. of Members	Total Bank	Savings Bank	Saving A/C No.	Amount inter loaning	Amount of CCL
Sarvodaya	Salalkhola Garud	20.12.04	10	17000	DCB	5013	25000	20000

## Conclusion

Capital is the primer most necessary and important factor for any income generation activity, it has been seen that the formal financial agencies are failed to provide sufficient credit to poor people. In some cases formal financial agencies provided credit to poor people but they were not able to utilize those funds in income generating activities in the absence of training and vocational assistance.

The lack of financial assistance and credit facilities are the major hurdles in removing poverty and creating employment for huge mass. From the study conducted on the sample of SHGs members, it is clear

that the Micro Finance helped the SHGs members to develop their income, growth of business and living standard.

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## Chapter -4

### The Growth Trends and Government Policy Regarding to Micro-Finance Organisations in Kumaun

#### (i) Growth Trends of Micro Finance.

(a) International and National Growth Trends of Micro-Finance

(b) Role of NABARD, SIDBI, Rastriya Mahila Kosh and NGOs in Micro-Finance.

#### (ii) Grant Support Programmes of NABARD for the Development of Micro- Finance.

(f) Support to RRBs.

(g) Support to Co-Operative Banks

(h) Support to NGOs

(i) Support to farmers Clubs and Individuals

(j) Revolving Fund Assistance to MFIs.

(iii) SHG Bank Linkage Progress in Kumaun Division

## Chapter 4

### The Growth Trends and Government Policy Regarding to Micro-Finance Organisations in Kumaun

#### Growth Trends of Micro Finance

We look at the historical account of the micro-finance sector at the global level.

The Grameen Bank, Bangladesh, was started as an experiment in 1976 and accorded a special banking charter in 1983. The Self-Employed Women's Association (SEWA) was established the SEWA Bank with the objective to provide credit to self-employed women with the view to empower them and reduce their dependence on money sharks. In 1981 NDF (National Development Foundation), Jamaica, was started with support of Pan American Development Foundation. In 1984 BRI (Bank Rakyat Indonesia started micro finance in Indonesia. In 1983 ADEMI (Association for Development of Micro Enterprises) was established in Dominican Republic, Santo Domingo with support from ACCION, and International Agency. In 1984, K-REP (Kenya Rural Enterprise Programme) was set up by USAID (United States Agency for International Development) to develop credit programmes for micro-enterprises through NGOs intermediation. In 1986 ACEP (Agency Credit Programme) was established in Senegal with the support of USAID. In 1986 PRODEM (Foundation for the promotion and Development of Micro-Enterprise), which was established by USAID & ACCION International in Bolivia, started micro finance. Later on it was

converted into a bank called Bancosol (Banco Solidario) in 1992. In 1987 IDH (Instuto de Desarrollo Hondurando) was started in Honduras with the support of opportunity international. Micro credit summit (2-4 February, 1997) held at Washington D.C. was organized to launch a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment, by the year 2005.<sup>1</sup>

## Growth in India

In India, it is estimated that micro-finance programmes will cover at least one third of the rural poor population by the year 2008 through one million SHG's (self-help Groups) by involving 25,000 bank branches, 4000 NGO's and 2000 federations of SHG's SEWA Bank has disbursed a total loan amount of Rs. 200 million. BASIX (A new Generation Rural Livelihood Promotion Institute) has disbursed a total loan amount of Rs. 200 million. BASIX (A new Generation Rural livelihood Promotion Institute) has disbursed a total loan amount of Rs. 150 million. FWWB (Friends of Women World Banking) India has disbursed a total loan amount of Rs. 120 million. SHARE (Society for Helping Awakening of Rural poor through Education) has disbursed a total loan amount of Rs. 130 million.

Role of Apex Financial Institutions in Micro-Finance since the Emergence of micro-finance sector in India, role of AFIs has become significant. NABARD initiated the process of micro-finance in India through linkage programme of SHGs under Automatic Refinance Scheme. SIDBI is second important player in micro-finance, providing bulk lending to MFIs. RMK is the third player providing loans to NGOs for

on lending to the women SHGs. There are the three major AFIs in India. Each has a different approach in micro-finance sector. While NABARD's emphasis is entirely on SHG's linkage programme by mobilizing their own savings also, SIDBI is focusing on building and creating larger MFI and RMK is lending money to smaller NGOs as well.

Taking into consideration the growth and potential of micro-finance sector in India, other organizations and international agencies have also made their entry in the micro-finance sector by providing loans and grants to NGOs for different income generating project as well as for incorporating micro-finance component in the service delivery projects of social development. The important names among them are HUDCO,

(Housing & Urban Development Corporation) NBCFDC (National Backward Classes Finance Development Corporation), NMFDC (National Minorities Finance Development Corporation), National handicrafts Development Corporation (NHDC), OXFAM (Oxford Committee for Finance & Relief), NOVIP (Dutch International Development Agency), GTZ (Gesellschaft CIDA Canadian International Development Agency, Action Aid, CARE India, international Fund for Agriculture Development (IFAD), UNDP, UNIFEM (United Nations Development Fund for women), British Department of Foreign and International Development (DFID) and Consultative Group to Assist the Poorest (CGAP).

Role of NABARD, SIDBI, Rastriya Mahila Kosh and NGOs Micro Finance

(i) Role of National Bank for Agriculture and Rural Development-

MYRADA (Maysore Resettlement & development Agency, N.G.O based in Bangalore) experiment of SHG promotion approach got very encouraging support from NABARD; Convinced that the experiment was worth emulating the RBI issued a circular dated July 24, 1991 to commercial banks advising them to actively involve themselves for linking SHGs with banks. NABARD in consultation with banks and NGOs issued guidelines on February 26, 1992 to enable bankers participate in this alternative credit delivery system to poor. Banks have actively participated in lending SHGs with strong back up support from NABARD since 1992. Similarly, many NGOs are also actively involved in promoting SHGs.

Under the NABARD approach of SHGs linkage, banks extend loans to SHGs either directly or through NGOs. NABARD extends 100 percent Automatic Refinance facility at 6.5 percent annum to all banks against their lending to SHG's (direct) or through NGOs (bulk lending). Over a period, NABARD has also relaxed its terms and conditions of interest rate charged by banks to NGO's under bulk lending and by NGOs to SHG's now the interest rate can be negotiated between NGOs and banks. Similarly, bank can charge to SHG and banks. Similarly, bank can charge to SHG as decided by the bank within the Scope of RBI Directives. SHGs can also decide their own rate of interest to be charged from their members.

Earlier, banks were charging 12 percent rate of interest if they directly lend to SHGs and 10.5 percent if they lend to NGOs for on lending, whereas NGO's can charge 12% from SHGs.

According to NABARD (1999 a), the loan amount to be sanctioned to an SHG should be a multiple of the total savings mobilized by the

group and not just the credit balance in the saving banks Account of the group. Initially, the loan amount may be up to two times of the savings of the group, which may go up to four times or more as per bank Manager's discretion. Along with the loan amount, SHGs can also utilize the balance in SB account freely. The group has to however, first work out the actual loan requirements of members. The purpose for which the group will lend to the member has also been left to the common wisdom the group. Similarly, repayment schedule of the loan will be determined after due deliberation and negotiation with the group. Three to five years repayment period on monthly/quarterly intervals may be considered. NABARD also facilitates training needs of bankers and capacity building of partner NGOs.

NABARD's Approach has been very flexible and innovative in strengthening the micro finance sector in India. It has gone in many experimental projects and modified its approach from time to time. (NABARD 1999m b).

"With just 225 SHGs credit linked with banks in 1992-93, this number has grown to over 33000 SHGs covering almost 500000 rural poor households NABARD plans to ensure credit linkages of at least one million groups covering almost third of the country's poor population by the year 2008. With this evolution the roles by possible have also widened considerably for example, while initially, the relationship was limited only to thrift and credit services among SHGs, NGOs and banks, now the entire gamut of financial products and services are covered under "micro finance". Similarly, NABARD now talking of "micro finance institutions" (MFIS), which include even federations of SHGs and non banking financial institutions rather than just NGO's that facilitate or

provide these products and services. The number and type of players in the micro-finance sector have increased substantially and the SHG Bank linkage approach has today been accepted widely as a sustainable mechanism to ensure they reach of various financial services to the poor”<sup>2</sup>

#### (ii) Role of Small Industries Development Bank of India

SIDBI operates micro credit scheme since 1999. It provides bulk lending to NGOs from lending to SHGs individual by the NGO's. SIDBI has also modified its approach of bulk lending to NGO's from time to time and has emerged as a major AFI in the field of micro-finance. Taking into consideration the extent of poverty level in India huge demand of Micro-finance and limited out reach of SIDBI, it has launched its new initiative, namely, SIDBI Foundation for Micro Credit (SFMC) in 1999 for channeling the funds to the poor with a new focus and approach. Now SIDBI is providing bulk lending to MFIs for on-lending directly to SHGs/individuals or route their assistance through their partner NGO's and MFIs. MFIs can give loans for all activities that may be classified as non-farm activity. SIDBI can give a maximum loan of Rs one million per MFI can lend to an individual borrower/SHG member up to Rs. 25000. The repayment period for all loans is 4 years including a moratorium of 6 months. SIDBI charges 11 percent per annum interest from MFIs in turn, may charge market driven rates for on-lending to their partners/SHGs/individuals. SIDBI has also released security norms. Now it requires TDRS (Term Deposit Receipts) equivalent to 10 percent of the loan amount together with interest accrued. SIDBI also provides a capacity building grant to MFIs for managerial salaries, strengthening accounting, and training functions in SHGs. As such be well managed,

should have been in existence for at least five years, have a good track record, have an established network and have good experience in organizing credit and saving groups (SHGs or individuals).

“By December 1999, SIDBI has provided a cumulative assistance of Rs. 324.99 million including grant support of RS. 12.09 million for capacity building has been sanctioned to 128 MFIs with a membership of over 0.2 million poor, especially women. SFMC is projected to cover 1.3 million poor clients within a period of seven years. It aims to create, develop and build a network of around 70-80 strong and viable MFIs, 10-15 reputed and experienced technical and management institutions offering specialized Micro-finance programmes and courses at par with international standards and an established network of technical assistance and service providers.”<sup>3</sup>

### (iii) Role of Rashtiya Mahila Kosh

Realization that the poor women, especially operating in the unorganized sector have very little access to formal banking sector led the Government of India establish RMK as a registered society in 1993, with a corpus of Rs. 31 crore. It is a part of the Department of Women and Child Development, Ministry of Human Resource Development, Government of India. Its major objectives are to provide credit as an instrument of socio-economic change of the status of women, to improve credit facilities for women for sustenance of their self employment/asset creation/asset redemption, to support and promote experiments in NGO sector, sensitize Government delivery mechanism, to promote research study/documentation and analysis of credit and its management etc.



RMK's target groups are the rural poor women. No collateral is required for loans to poor women and the loans are extended through groups of beneficiaries. NGO's Women Credit Co-operatives, Women Development Corporations, etc, having a three years good track record of operating a credit and savings schemes are eligible for taking loan from RMK, provided their recovery records has been above 90 percent. The amount of loan for short term is a maximum of Rs. 4000/- and for medium term Rs. 6000/- per borrower. The loans can be given repeatedly. The short term loan are for a maximum period of 15 months and medium term for a period of 3 years; and are repayable in half yearly in statements. The lending rates are 8 percent per annum to NGO who can on lend of SHGs at 12 percent, but ultimate borrowers cannot be charged a rate exceeding 18.75 percent. The interest will be payable quarterly. In addition to the 4 percent spread, NGOs will also be eligible for 0.5 per cent of loan amount on a matching basis for training of the borrowers. NGO's have to give at least 10 percent of the loan amount as margin money. Moreover, if loan is disbursed to final borrowers within 30 days of its receipt from PMK, the NGO becomes eligible for discount of one per cent of the loan amount.

Up to March 1997, RMK had sanction loan worth 35.1 crore to 170 NGO's this is expected to benefit 190000 poor women. RMK plans to reach 10 lakh borrowers during the nine five year plan, this is, up to the year 2002. Current by repayment rate of RMK partner NGOs is 95%.

### NGOs and Micro-Finance

In the end of 19<sup>th</sup> and every 20<sup>th</sup> centuries, several voluntary efforts were started in the field of society and economy. Even after a

long time of development efforts initiated by the state India is a low-income developing economy, facing the problems of unemployment, unsustainability finance, and poverty.

Government of India realized its failure in properly implementing development projects and decided to involve NGOs during the seventh five-year plan, in executing development projects.

## Definitions of NGO

"NGOs include groups and institutions they are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objective." Handbook for NGOs: ANABHI Plus.

## Characteristics of an NGO

- NGO is a non-profit making, voluntary organization.
- The main aim of a NGO is empowerment of poor people and social and economic development of the society.
- NGOs work independent without any direct external control of Government.
- NGOs are not affiliated to political parties; NGOs are generally engaged in working for aid, development, and welfare of the community.

NGOs are also known as-

- 1- Voluntary Development Organisations (VDOs)
- 2- Voluntary Agencies.
- 3- Voluntary Organisations (VOs)

4- Non Governmental Organisations (NGOs)

5- Non Governmental Development Organisations (NGDOs)

## Formation of NGO

Basically and non governmental organization is perceived to be an association of persons or a body of individuals. Such body with a definite name and objective may be a registered one or unregistered one. When NGO is seeking funding (National or international) for carrying out his work, the funding agencies will definitely look for some legal character for such organization. Legal character is acquired only after registration (incorporation of the association of persons under any of the applicable laws.

## Applicable Laws

1. As a charitable Trust.
2. As a society under the societies registration act.
3. As a licenced company under section 25 of the companies act, 1958.<sup>4</sup>

## Financial Intermediation of NGO

In Indian scenario, it is felt that NGOs play important role in bridging the gap between demand and supply of funds, it is felt that NGOs may play the catalytic role of promoting SHGs and linking them with banks, NGOs can be expected to fast internalities the culture and practice associated with efficient conduct of the business of micro-finance.

For the economic development programmes, apex institutions like NABARD/SIDBI/IDBI and commercial banks, have schemes to support NGOs in their development efforts to facilitate supply of credit to the ultimate beneficiaries. SIDBI, NABARD and RMK provide grants for setting up revolving funds by NGO's from which funds are given initially to SHGs for the purpose of on lending to their members for consumption and income generation activities.

The innovative approaches adopted by NGOs are followings.

- NGOs are flexible in development methods. NGOs work according to the social and economic requirements of the society and NGOs are capable to modify plans and methods according to development requirements.
- NGOs are more action oriented. NGOs are able to undertake need-based activities because they undertake studies relating to situation and needs of the people.
- NGOs are more focused on development work. The goal confusion is one of the important contributing factors for the limited success of the government initiated programmes in India.
- NGOs can play an important role in relieving poverty, it is vital to make sure that in any particular situation they have a comparative advantage.
- Several specific sectors stand out as areas of particularly solid NGO performance: distribution of credit, introduction of technological change including agriculture and primary health care.

- The evidence is that NGOs have a positive record of encouraging local participation. NGOs certainly tries increasingly to work with community groups as partners, and emphasize local self-help initiative and local control of programmes.

## Role of NABARD in SHG Formation in India

### Introduction

NABARD has been playing a leading role in the microfinance programme for two decades now. It has been catalyzing the banking system in the country to join hands with informal delivery channels to give SHG Bank Linkage the necessary momentum. During the year 2005-06 it has continued to nature healthy expansion of the programme by providing umbrella support to its stakeholders.

During 2005-06, these efforts have resulted in credit linkage of 620109 new SHGs with mainstream banks as against 539365 SHGs during 2004-05 thus registering 15% growth over the previous year. The cumulative number of credit linked SHGs increased from 1618456 as on 31 March 2005 to 2238565 as on 31 March 2006. The active participation of women (90%), and timely loan repayment (over 90%) continue to be the prominent feature of the programme. Proactive measures such as enlisting partnerships, capacity burdening of partner agencies, document action and dissemination of best practices etc. served to expand the programme. The year witnessed an all round growth in the SHG Banks linkage programme in may non-southern states. The programme enabled an estimated 32.98 million poor households in the country.

### Gain Access to Micro finance from the Formal Banking System

Nabard has been instrumental in facilitate the formation and nurturing of SHGs, involving all possible partners in the arena. Realizing the task involved in group formation which is process oriented, NABARD has been encouraging voluntary agencies, banks socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture such groups. The focus was on building capacities of the partners and providing assistance in meeting the incremental costs for nurturing of SHGs. Under NABARD's capacity building programmes for its partners, 283825 participants were trained and field visits for 7221 bank officials were arranged during the year. NABARD also extended extensive support for arranging and conducting awareness creation and capacity building programmes for SHG members in association with identified resource NGO's. During the year, a total grant assistance of RS. 81.25 million was sanctioned to 337 NGO's, 15 co-operative banks, 8 RRB's and 415 individual Rural Volunteers (IRVS) through 9 banks to promote 38317 SHG's the cumulative assistance sanctioned being Rs. 33460 million for promotion of 249350 groups.

On an experimental basis, revolving fund assistance (RFA) to selected NGOs and micro finance institutions (MFIs) is provided by NABARD. So far RFA of Rs. 273.20 million has been sanctioned to 32 agencies and Rs. 215.28 million has been released against which Rs. 92.49 million is outstanding as on 31<sup>st</sup> March 2006.

NABARD's emphasis on scaling up the SHG-Bank Linkage Programme in 13 priority states that account of 70 per cent of the country's rural poor has resulted in about five fold increase in the number of SHGs credit linked during the period 2002-2006. As a result,

the share of states other than the southern states increased from 31% as on 31 March 2002 to 46% as on 31<sup>st</sup> March 2006.

During the year 2005-06, NABARD has re-designated Micro-finance Development fund (MFDC) as Micro-Finance Development and Equity Fund (MFDEF) and enhanced the fund size from Rs. 100 crore to Rs. 200 crore. An amount of Rs. 113.50 million from MFDEF was utilized during the year towards up-scaling of SHG Bank Linkage programme.

NABARD's collaboration with external agencies like SDC and GTZ for support and strengthening the programme continued during the year.

Number of new SHG's Financed by Bank During the last 5 years

Table-33

Bank loan provided during the last 5 years by NABARD

Year	Rupees in million
2005-2006	44991
2004-2005	29942
2003-2004	18555
2002-2003	10224
2001-2002	5454

## Highlights

Physical achievements

- Number of new SHG's 2005-06 : 781958
- Number of new SHGs finance by banks during 2005-06: 620109
- Number of existing SHG provided repeat finance by banks during 2005-2006 : 344502
- Number of poor families accessing bank credit including repeat finance during 2005-2006 13-50 million.
- Estimated number of poor people covered during 2005-2006: 67.50 million
- Cumulative no. of SHFs financed by banks upto March 2006 : 2238565
- Number of poor families who have accessed bank credit up to March 2006: 32.98 million
- Estimated no of poor people assisted up to March 2006 164.90 million
- Number of SHGs comprising only women members over 90%

#### Credit flow to SHGs

- Bank loan disbursed to new SHGs during 2005-06 Rs. 23305 million
- Repeat loans disbursed by bank to existing SHGs during 2005-06
- Increase in credit flow to SHGs over the previous year 50%
- Cumulative bank loans disbursed to SHGs upto March 2006 Rs. 11 billion

Table-33



## Partnerships

Number of participating banks	547
Commercial Banks	47
Regional Rural Bank	158
Co-operative	342
Number of bank branches lending to SHGs	44362
Number of participating NGO and other agencies	4896

## Geographical Spread

Number of States & Union Territories	31
Number of Districts	583

## Support from NABARD- Capacity Building of Partner Institutions

No. programme conducted during 2005-06	5014
No of participants trained during 2005-06	283825
cumulative number of participants trained upto March 2006	1299423
Cumulative fund support upto March 2000	213.66 million

Table-34

### Grant Assistance to SHPIs for promotion of SHGs

Grant Assistance sanctioned to self help promoting institutions SHPIs during 2005-2006	81.25 million
Cumulative Grant Assistance Sanctioned to SHPIs upto March 2006	334.60

Sorce- Progress of SHG (NABARD) Bank Linkage in India 2005-06

### Self Help Group- A Concept

A self help Group (SHG) has an average size of about 15 people from a homogeneous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process help them imbibe the essentials of financial inter-mediation including prioritization of needs setting terms and conditions, and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them. The SHG members begin to appreciate the fact that resources are limited and have a cost. Once the groups show this mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given against group dynamics without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members.

Since the groups own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments. Apart from financial help at the time of need, the group provides social security at its members.

### SHG-Bank Linkage 2005-2006

The performance of banks in linking (SHGs) to the banking system scaled further heights during the year. The banks finances financed 620109 new SHGs during 2005-06 (539365 SHGs during 2004-2005). The cumulative number of SHG credit linked with banks increased to 2238565 as on 31 March 2006 covering more than 32.98 million poor households as against 1618456 SHGs covering 24.3 million poor households as on 31 March 2005.

Total bank loans disbursed to SHGs during the year aggregated Rs. 44990.83 million (including repeat loans of Rs. 21686.31 million provided to existing SHG already financed in earlier years) as compared to Rs. 29942.52 million disbursed during the previous year, registering a growth of 50.3% over the previous year. The refinance drawn by banks from NABARD stood at Rs. 10677 million during 2005-06. from 1992 onwards, in physical and financial terms is given in Table 1.

Table-35

### SHG Bank Linkage- Cumulative Progress (1992-2006)

Up to and March	SHGs Financed	Bank Loan (Rs. Million)
1992-99	32995	571
1999-00	114775	1930

2000-01	263825	4809
2001-02	461478	10263
2002-03	717360	20487
2003-04	1079091	39042
2004-05	1618456	68985
2005-06	2238565	113975

Sorce- Progress of SHG (NABARD) Bank Linkage in India 2005-06

Up to 31 March 2006 90 percent of the SHGs linked were exclusive women SHGs various studies revealed that the on time repayment of SHG loans to banks was over 90 per cent.

Table-36  
Trends in Cumulative Growth of SHFs Linked to Bank  
Region-wise Progress

Region	March 01	March 02	March03	March04	March 05	March 06
Northern Region	9012	19321	34923	52396	86018	133097
North Eastern	477	1490	4069	12278	34238	62517
Eastern Region	22252	45892	90893	158237	265628	394351
Central Region	28851	48181	81583	127009	197365	267915
Western Region	15543	29318	42180	54815	96266	166254
Southern	187690	317276	463712	674356	938941	1214431

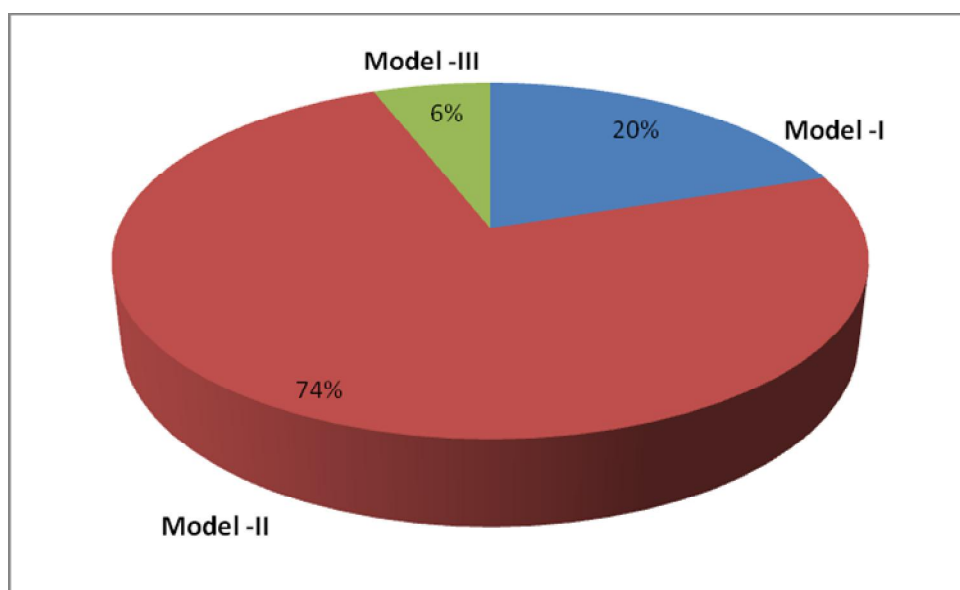
Region						
All India	263825	461478	717360	1079091	1618456	2238565

Source- Progress of SHG (NABARD) Bank Linkage in India 2005-06

The positive growth of SHG-Bank Linkage was vacillated by the state/region specific strategies developed by NABARD in consultation with its regional offices at the state level banks, NGOs and the state governments. Promotional efforts were launched in these states by NABARD through its regional offices, participating agencies and other institutions including the government and non-governmental agencies. NABARD took specific steps to identify district level bottlenecks in up scaling SHG-Bank Linkage in the states of Bihar, Uttar Pradesh, Rajasthan Assam, Madhya Pradesh, West Bengal, and Orissa by conducting Goal Oriented project planning (GOPP) programmes for the district officers of NABARD in those states. This enabled NABARD widen its network of partnership beyond the NGO sector for formation and nurturing of SHG in these states.

### Different Models of Linkage

Model wise SHG Linkage as on 31<sup>st</sup> March, 2006



Source: Progress of SHG-Bank Linkage in India NABARD 2005-2006

The three models of credit linkage of SHGs with banks showed the following trend as on 31<sup>st</sup> March 2006.

Model 1: SHGs formed and financed by banks in this model, banks themselves take up the work of forming and nurturing the groups, opening their saving accounts and providing them bank loans upto March 2006, 20% of the total number of SHGs financed were from this category. This showed an increase of 61.63 per cent in bank loan to SHGs over the position as on March 05, reflecting an increased role of banks in promoting and nurturing of SHGs.

Model II: SHGs formed by formal agencies other than banks, NGOs and others, but directly financed by banks.

This model continues to have the major share, with 74% of the total number of SHGs financed upto 31 March 2006 falling under this category. Here, NGOs and formal agencies in the field of micro finance act only as facilitators. They facilitate organising, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to their SHGs.

Model III : SHGs financed by banks using NGOs and other agencies as financial intermediaries.

This is the model wherein the NGOs take on the additional role of financial intermediation. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach suitable banks for bulk loan assistance. This, in turn, is used by the NGO for on-lending to the SHGs. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like federations of SHGs are coming up as links between bank branch and member SHGs. These federations are financed by banks, which, in turn, finance their member SHGs. The share of cumulative member of SHGs linked under this model upto March 06 continued to be relatively small at 6 percent.

### Training and Capacity Building

NABARD continued to organize sponsor training programmes and exposure visits for the benefit of officials of banks, NGOs, SHGs and government agencies to enhance their effectiveness in the field of microfinance. Training supplements and material were supplied to banks and other agencies. Best practices and innovations of partner agencies were widely circulated among government, banks, and NGO's during the year 2005-06, fund support of Rs. 58.53 million was provided for capacity building exposure and awareness building. The cumulative fund support as on 31 March 2006 stood at Rs. 213.66 million, during the year, the 5014 training programmes covering 283825 participants as per the details furnished below.

- in all 3213 awareness creation and capacity building programmes were organised for SHG members in association with identified

resource NGO's covering 209945 participants to inculcate skills for managing thrift and credit.

- 259 awareness-cum-refresher programmes were conducted for functionaries of NGO's including CEO in which 4339 participants imparted training.
- 8 trainers training programmes were organised for 237 faculty members of training institutions of various commercial banks.
- 664 training programmes were conducted for bankers covering 30039 officials of commercial banks, co-operative banks, and RRB's.
- 48 exposure visits of banks and institutions pioneering in microfinance initiatives were arranged in which 1201 bank officials/NGO staff participated.
- To involve more bank officials in the SHG bank linkage programme, 303 field visit to nearby SHGs for Block Level Bankers Committee (BLBC) members were conducted covering 7221 officials
- 241 programmes on microfinance were organised at different training establishments which covered 8331 government officials;
- 33 programmes for the elected members of Panchayati Raj Institutions (PRIs) were conducted, covering 1106 participants to create awareness among them about the microfinance initiatives.
- 4 training-cum exposure visits for new DDMs/DDOs were organised;
- 2 exclusive workshops were organized for senior IAS officers through LBSNAA Mussorie.



- 76 meets and seminars on microfinance were organized at various centres.

### Micro Enterprise Development Programme (MEDP) for Skill Development:

Graduation of SHG members to take up micro-enterprises requires provision of intensive training and handholding on various aspects including understanding market, potential mapping, fine tuning of skills and entrepreneurial abilities. During 2005-06, a focused and location specific micro-enterprise development programme (MEDP) on skill up gradation and development for sustainable livelihoods for members of matured SHGs was launched. The MEDP aims at facilitating quick inputs to members of matured SHGs on technical skills, micro entrepreneurial skills and on issues relating to marketing of their products.

### Grant Support Programmes of NABARD for the Development of Micro-Finance

Grant Support to Partner Agencies for Promotion and Nurturing of SHGs.

NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to NGOs, RRBs, DCCBs, farmers Clubs and individual volunteers and developing capacity building of various partners, which has brought about excellent results in the promotion and credit linkage of SHGs. Further, increasing number of partner institutions functioning as self-help promoting institutions (SGIs) over the years resulted in the expansion of the programme throughout the country.

## Support to Regional Rural Banks (RRBs)

A. The local character and regional spread of PRBs give them an advantage in providing and nurturing support to SHGs. Therefore, NABARD has been encouraging PRBs for this purpose from 1999 onwards. During the year, 8 KRBs in 6 states were sanctioned grant assistance of Rs. 2.84 million for promotion and linkage of 2255 SHGs taking the cumulative total of grant sanctioned to Rs. 33.99 million for 109 RRBs in 21 states for promotion and linkage of 41190 SHGs. Out of this, grant assistance aggregating Rs. 13.77 million was availed by banks, which resulted in promotion of 48281 SHGs of which 29783 were provided with bank loans.

### B. Support to Co-operative Banks

NABARD has been supporting capacity building; exposure and awareness create initiatives among the co-operatives to mainstream SHG-Bank Linkage in the co-operative banking sector. During the year, 15 District Central Co-operative Banks (DCCBs) in 5 states have been sanctioned grant assistance of Rs. 8.61 million for promotion and linkage of 6700 SHGs, taking the cumulative total grant assistance to Rs. 31.64 million for 69 DCCBs for promotion and linkage of 34810 SHGs. Out of this grant assistance, an amount of Rs. 7.63 million has been released which resulted in promotion of 27547 SHGs and linkage of 11258 SHGs.

### C. Support to Non-Governmental Organisations

Recognizing the core competence of the non-governmental agencies in formation and nurturing of good quality SHGs, NABARD continued to involve an increasing members of NGO partners to take up

the function of self help promoting institutions (SHPIs). The NGOs, which act as (SHPIs) an add-on function, were provided with supplementary assistance in the form of promotional grant and infrastructural support.

Decreasing the year, promotional grants, aggregating Rs. 62.70million were sanctioned to 337 NGO's for promotion and credit linkage of 25087 SHGs as against Rs. 42.66 million sanctioned to 317 NGOs for promotion and linkage of 24234 SHGs during the previous year. The amount of cumulative grant support of Rs. 256.50 million has been sanctioned to 1515 NGOs for promotion and linkage 164550 SHGs. As against this a cumulative grant of Rs. 124.96 million was, so far, drawn by the NGOs, which resulted in promotion of 128553 SHGs and credit linkage of 80511 SHGs.

#### D. Support to Farmer's Clubs

The farmers clubs, promoted by banks under the farmer club programme of NABARD enjoy local acceptability and good will be being informal ambassadors of the village to the banking system cumulatively, as on 31 March 2006, the farmers clubs promoted 12659 SHGs' of which 6509 have been credit linked.

#### E. Support to Individual Rural volunteers (IRVs)

Based on the feedback received in respect of a pilot scheme for encouraging socially committed individual rural volunteers (IRVs) in organizing the rural poor into SHGs, it was decided to extend the scheme to 13 states which account for bulk of the rural poor. During the year, financial assistance of Rs. 7.10 million was sanctioned to 9 RRBs for promotion of 4275 SHGs through 415 volunteers. As on 31<sup>st</sup> March 2006, the progress under the pilot scheme has been good. Total 124 IRVs have

been actually associated who have promoted 2020 SHGs out of which 701 are credit linked. A grant assistance of Rs. 127 million has been released.

#### F. Revolving Fund Assistance to MFIs

NABARD provides loan funds in the form of revolving fund assistance (RFA) on a very selective basis to MFIs. The RFA provided to these agencies is necessarily to be used for on-lending to SHGs or individuals and the amount is to be repaid & along with the service charge within a stipulated period of 5 to 6 years. This enables them to build a credit history, which would help them in future, while trying to access credit facilities through the regular banking channels. Cumulatively, RFA of 273.20 million was sanctioned to 32 agencies and Rs. 215.28 million has been released against which Rs. 92.49 million stands outstanding covering (IMFIs)

SHG-Bank Linkage Programme- Regional Spread of physical and financial progress on 31 March 2006

Table-37

Sr. No.	Regional/State	Cumulative No of SHGs Prided with bank loan upto 31 March 2005
1	Uttarakhand	14043
		14043

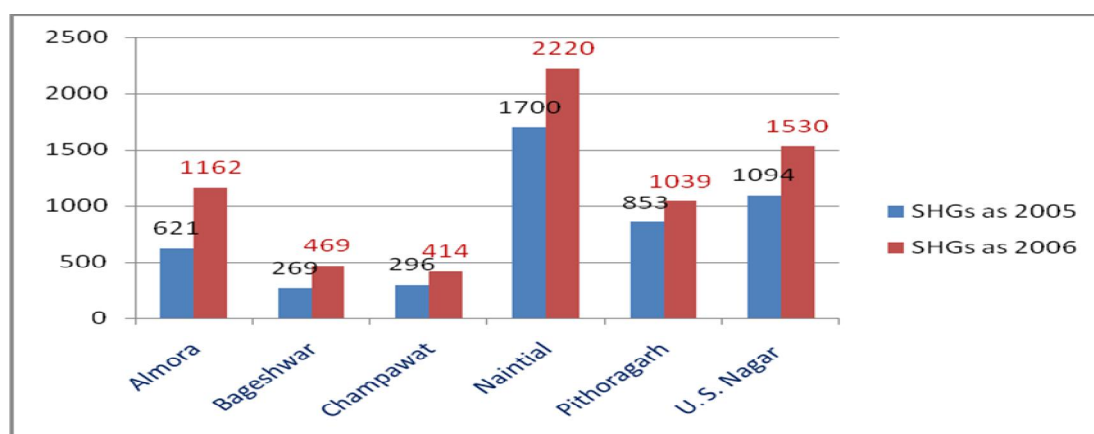
No. of SHGs provided with bank loan during 2005-2006	No,. of existing SHGs provided with repeat bank loan during 2005-06
3545	788

Cumulative No. of SHGs provided with bank loan upto 31 March 2006	Bank loan upto 31 March 2005
17588	576.05 (Rs. million)

Table-38  
SHG Bank Linkage-District-wise Physical and Financial  
Progress upto 31 March 2006 in Kumaun  
(Rs. million)

District	No. of SHG provided with bank loan upto 31 March 2005	No. of SHGs provided with bank loan upto 31 March 2006
Almora	621	1162
Bageshwar	269	469
Champawat	296	414
Naintial	1700	2220
Pithoragarh	853	1039
U. S. Nagar	1094	1530
Total	4833	6534

Source: Progress of SHG-Bank Linkage in India 2005-06



The number of SHGs provided with bank loan upto 31 March 2005 in Kumaun Division was 4833 and this number is improved upto 31 March 2006 and 65345 SHG Avail Bank Loan. Upto March 2006 2220 SHG Avail loans in Nainital District. In 2005 only 1700 SHG avail loan from Banks in Nainital District.

Cumulative Bank Loan disbursed upto 31 March 2006 to SHGs was 410.31 million.

Table-39

Support to NGOs for Promotion and Uttarakhand (Kumaun Division)

Rupees in million

Year of Sanction	Districts to be covered	No of SHGs to be promoted and linked	Amt. Sanctioned	Progress Made As on 31 March 2006			
				Amt. of Grant released	Amt. of grant promoted	No. SHGs with SB Acs	No of SHGs credit linked
2000		200	0.300	0.232	216	216	91
2003	Nainital and U.S. Nagar	25	0.040	0.008	25	25	2
2004	Champawat	25	0.45	0.009	10	10	0
2004	U.S. NAgar	50	0.090	0.064	50	50	12
2004	U.S. Nagar	50	0.090	0.045	50	46	9
2004	Bageshwar	25	0.045	0.023	35	31	10
2001	Almora	50	0.75	0.038	50	50	21

2002	Nainital	100	0.170	0.167	100	100	97
2003	Pithoragarh	25	0.040	0.008	25	25	2
2003	Nainital	50	0.090	0.079	50	50	40
2003	Nainital	50	0.094	0.074	50	50	13
2003	Bageshwar	100	0.165	0.139	110	110	93
2004	U.S. Nagar	25	0.050	0.010	15	11	0
2004	U.S. Nagar	100	0.180	0.90	105	105	25
2004	Almora	100	0.180	0.090	105	105	25
2004	U.S. Nagar	100	0.180	0.0036	52	31	0
2004	Almora	100	0.200	0.140	105	105	74
2005	Almora	100	0.250	0.025	49	49	0



2005	Almora	100	0.270	0.027	24	24	0
2005	Almora	100	0.270	0.027	0	0	0
2005	Nainital	50	0.140	0.014			
2006	Nainital, U.S. Nagar, Paurigarhwal	300	0.810	22	17	0	
2006	Almora	50	0.140	000	0	0	0
2006	Almora	50	0.140	0.014	0	0	0
2006	Almora	50	0.140	0.014	0	0	0
2006	Almora	50	0.140	0	0	0	0

dia(2005-2006) NABARD

Table-40

## Formation and linkage of SHGs in 2006-07 Kumaun Division

District	Achievement	
Name of the District	Formation	Credit linkage
Almora	396	534
Bageshwar	447	315
Chamoi	41	39
champawat	94	106
Dehradun	2364	966
Haridwar	159	374
Nanital	398	466
Pauri Garhwal	474	147
Pithoagarh	96	173
Rudraprayag	293	35
Tehri Garhwal	102	375
U.S. Nagar	146	267
Urkashi	1061	142
Total	6071	3939

Source: 2006-07, 6071 New SHGs Formed in Kumaun Division and 3939 Credit Linkage with Banks.

From the information derived by interpretation of Data Table, it can be understood that in Kumaun Division. There are 26 NGOs received Grant Support from NABARD with the help of above table we can say in

Kumaun Micro-Finance become a good tool for poverty Alleviation. In recent years Micro-Finance Developed enormously in Kumaun Division the overall progress of Micro Finance in Kumaun Division is satisfactory in times to come we will see more progress of Micro Finance in Kumaun Division.

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## Chapter-5

### Problems and Prospective in the Growth of Micro-Finance in Kumaun

#### (i) Need of Micro Finance Bill in India

- (a) Micro Finance Sector So far.
- (b) The Micro finance Sector (Development and Regulation) Bill 2007
- (c) Comments on the the Bill in General
- (d) Limitations of Micro-Finance.
- (e) Assessment of Micro-Finance Bill 2007
- (f) Scope of the Bill
- (g) Regulatory Norms
- (h) Conclusion

## Chapter-5

### Problems and Prospective in the Growth of Micro-Finance in Kumaun

#### Need of Micro Finance Bill in India

The poor have always found it difficult to access credit easily and promptly as their income-generating capacities are uncertain and credit worthiness (in terms of collateral, pay-back potential) is low. The Indian rural poor have traditionally had a history of going to money-lenders, who could be landowners, businessmen, traders. Their loans were given on very high interest rates, and very often the debtors were entrapped for life, risking the loss of his meager capital assets. The history of cooperative societies in India dates back to the early part of the twentieth century. A number of cooperative credit societies grew over time, which provided legislative and executive interventions, from time to time. NABARD have provided guidelines on the working of SHGs (Self Help Group) which are the primary mode in which microfinance groups have emerged in India. The central bank of India, RBI, has from time to time issued circulars and provided guidelines.

The Microfinance Bill 2007 is the first attempt to bring informal microfinance organization into the fold of a formal banking regime, with the NABARD as a top regulatory authority.

Micro finance sector so far: self-help groups in India

Micro finance clients are typically self-employed, micro entrepreneurs and poor people. In rural areas, they are usually small farmers and people who are engaged in small income generating activities such as food processing and petty trade. In urban areas, clients of microfinance may be shopkeepers, service providers, artisan's street vendors.

A Self help Group (SHG) is a small voluntary associations of poor people of comparable Socio-economic background. Usually, these are groups who come together for mutual assistance in a number of areas. The SHG promotes small savings among its members. The savings are kept with a bank. This common fund is in the name of the SHG. Usually, the number of members in one SHG does not exceed twenty.

The members of SHG are usually very poor people who are not credit worthy enough to access credit from formal credit institutions. Non Governmental organizations (NGOs), Social workers, health workers, village level workers, informal associations of local people, development oriented government departments, banks, bank personnel and other individuals (in their personal capacities) Farmer's clubs under the Vikas volunteer Vahini (VVV) programme of NABARD other development institutions. It has been the experience that women's groups perform better in all the important activities of SHGs.

SHGs can open a saving bank account with the nearest commercial or Regional Rural Bank or a regional rural bank or a cooperative Bank. This is essential to keep the thrift and other money of the SHG safely and also to improve the transparency levels of SHGs transactions. Opening of Saving Bank Account, in fact, is the beginning of the relationship between the bank and the SHG. The Reserve Bank of

India has issued instructions to all banks permitting them to open SB accounts in the name of registered or unregistered SHGs.

## Role of NABARD So Far

The National Bank of Agriculture and Rural Development was created as a Development Bank with a mandate to support through promotion of credit, activities in the field of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. Its various functions include not only extension of credit, but also evaluation, monitoring and inspection of client banks, implementation of programmes of the Government of India in agriculture and rural development, and assisting the RBI in its activities in these fields.

NABARDs credit functions cover planning, dispensation and monitoring credit. It frames policies and guidelines providing credit facilities, preparation of credit plan annually for districts for identification of credit potential, and monitors flow of credit at the ground level.

The NABARD is the apex refinance institution, in the rural and agricultural credit sector, offering various types of refinance facilities, to commercial banks, RRBs, NGOs, partnership concerns, state-owned corporations or cooperative societies as immediate beneficiaries.

## RBI and Micro-Credit

A pilot project for surveying micro-credit by linkage of self-help groups (SHGs) with banks was launched by NABARD in 1991-92 with a view to facilitating smoother and more meaningful banking with the poor. RBI had then advised commercial banks to actively participate in the linkage programme. The schemes have since been extended to RRBs



and co-operative banks. The number of SHGs linked to banks aggregated 461478, as on March 31, 2002. An estimated 7.87 million very poor families were brought within the fold of formal banking services as on March 31, 2002. More than 90 percent of the groups linked with banks are exclusive women groups. Cumulative disbursement of bank loan to these SHGs stood at Rs. 1026.34 crores as on March 31, 2002 with an average loan of Rs. 22240 per SHG and Rs. 1316 per family. As regards model-wise linkage, while model-I, viz. directly to SHGs without interventions/facilitation of any NGO now accounts for 16%, model II, viz. directly to SHGs with facilitation by NGOs and other formal agencies amounts of 75% and model III, viz. through NGO as facilitator and financing agency represents 09% of the total linkage. While 488 districts in all the states/UTS have been covered under this programme, 444 banks including 44 commercial banks (including 17 in the private sector), 191 RRBs and 209 co-operative banks along with 2155 NGOs are now associated with the SHG bank linkage programme.

Government of India, vide their notification dated Aug. 29,2000 have included 'Micro Credit/Rural Credit' in the list of/ permitted non-banking financial company (NBFC) activities for being considered), dated foreign Direct Investment (FDI)/Overseas Corporate Bodies (OCB).Non Resident Indians (NRI) investment to encourage foreign participation in micro credit projects.

In a Master Circular (RPCD. No. Plan B.C. 24/04.09.22/2005-06), dated 30 July, 2005, to banks on lending policy to self-help groups, and enhancing the outreach of micro-credit, the Governor of RBI advised:

- (i) Banks should provide adequate incentives to their branches in financing the self-help groups (SHGs) and establish linkage with

them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

- (ii) The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon.
- (iii) The approach to micro-financing of SHGs should be totally hassle-free and may include consumption expenditures

The Vaidyanathan Committee (2004) (4) has asserted the need for state governments to abide by RBI mandates/directions on regulation of cooperatives, which pointing out that the over-interference from State Governments has impeded the growth and maturity of cooperative credit organizations. The regulatory and legal reforms it suggested were within the realm of already existing state cooperative laws. It recommended that cooperative banks (SCBs, PACs, etc.) be brought under further supervision of NABARD, and suggested greater monitoring and intervention from RBI.<sup>1</sup>

## The Microfinance Sector (Development and Regulation) Bill 2007

The Microfinance Bill 2007, introduced by the Union finance Minister in Lok Sabha on 20<sup>th</sup> March 2007, looks to achieve 'orderly growth and development of the microfinance sector'. The microfinance institutions have so far emerged spontaneously, or through NGO facilitation. Most of them are in the Self-help Groups functioning very often through intermediary NGOs, and accessing credit from commercial banks.

The new Bill looks to organize this spontaneous and sporadic emergence, into a consolidated state-aided effort towards developing microfinance into formal banking sector, with the NABARD as the primary regulatory authority. The problem with this perspective on development through monitoring and regulation is that localized innovation is thwarted. The policies and mechanisms devised by a small SHG in consonance with the demands and of its members, the resources it has access to, and the end it seeks to achieve given its circumstances.

## MFOs, SHGs, Individual Borrowers

The Beneficiaries: The 2007 Bill creates the category of an 'eligible client' who is the primary consumer of microfinance services. An eligible client as defined in Section 2(b) [5] may be a member of registered or unregistered group, an SHG itself, or any other formed for providing micro-finance services. She may belong to any of the categories:

- (i) farmers owning not more than two hectares of agricultural land or such area agricultural land as may be prescribed;
- (ii) (ii) disadvantaged cultivators of agricultural land including oral lessees, tenants, share croppers,
- (iii) (iii) landless labourers, migrant labourers,
- (iv) (iv) artisans, micro entrepreneurs, persons engaged in small economic activities,
- (v) (v) women,
- (vi) (vi) other categories 'as may be prescribed'

- (vii) A 'group' is defined as an association of eligible clients formed either as an SHG, joint liability group. Such groups are meant to perform two kinds of services- (i) thrift services
- (viii) the services of collecting savings from one's members through a group mechanism
- (ix) (ii) microfinance services
- (x) agriculture, allied activities, housing, insurance, financial services through a business facilitator or business correspondent mechanism (as permitted by the RBI). Any other services as may be specified by the NABARD.<sup>2</sup>

## The Providers

The Bill further creates the category of 'microfinance organisation' as defined under Section 2(e). The MFO is conceived as the key provider of microfinance services under the Bill. An MFO includes an 'organization', which is not 'a group established for the purpose of carrying on the business of extending micro finance services'.<sup>(10)</sup> A myriad of organizations can qualify as an MFO. Closely held societies and trusts, cooperative societies, can perform thrift and microfinance services provided they can procure a certificate of registration from the NABARD.

It is not clear, though, from the definition clause<sup>(11)</sup>, whether which MFOs are eligible for accepting thrift from their members only, and which can accept from the public at large (as 'eligible clients'), akin to bank. The definition of MFO empowers them to extend microfinance

services and does not mention thrift. But the definition of 'thrift' envisages collecting of money by MFOs.

A group which is registered in the manner given in section 2(e), which could be a large organizational a small localized one, and operates to to perform thrift and microfinance services, can qualify as an NFO. In such event, it is subject to regulatory mechanisms under the Bill. An MFO performs the same functions vis-à-vis a group that a non-MFO group can perform vis-à-vis its member. It can deal directly with an individual borrower as well.

It is ignored under the bill that subjects the level of resource pool, outreach, accessibility, target group for extension of services, MFOs could vary widely in function, size, targets. But the licensing, qualification, registration, accounting standards, penalties are directed at all MFOs alike. NABARD has been given the power to formulate policies to at all MFOs alike. The NABARD has been given the power to formulate policies to promote and help the MFOs. It is also against the public interest to empower closely held bodies to discharge banking functions, to accept savings from general public, especially those from economically vulnerable sections- small entrepreneurs, women, farmers.<sup>3</sup>

## The Regulator

The Bill envisaged NABARD as the primary regulator of the MFOs and the microfinance 'sector'. The NABARD is empowered to discharge a range of functions under. A Micro Finance Development Council(12) (Sections 3, 4, 5 ) is envisaged, to advise the NABARD on 'orderly growth and development of the microfinance sector'. It procedures and

functioning is to be specified under the regulation-making power of the NABARD (Section 34). The powers of this Council are purely advisory, and their ambit is regulated by NABARD.

The bill vests a host of powers in NABARD which is also envisaged to be the key stakeholder in the microfinance 'sector'. NABARD is expected to manage and monitor the registration system for MFOs. No MFO under this Bill can operate without the NABARD certificate of registration. Existing MFO's have to apply for registration within six months of the commencement of the Microfinance Act.<sup>(13)</sup> One of the conditions for qualifying for a certificate of registration is minimum net owned funds of Rs. 5 Lakhs, created out of promoter's contributions or grants or donations, and be in existence for at least three years. The NABARD is also given the power to cancel registration, inspect books of accounts, impose penalties.<sup>(14)</sup> Every MFO is expected to create a Reserve Fund, into which they have to deposit not less than 15% of their net profits. They can only withdraw from the Fund, for purposes indicated by NABARD.

A number of cooperatives, under the MACS Act or state cooperative Acts will now be subject to this elaborate regulatory regime, without which they will be disqualified from carrying out microfinance business. Under present laws, these cooperatives are subject to rigors of banking law, only when they want to move into banking business and want to be able to accept deposits from the public at large. So far, they have had the powers to devise their own policies, targets, arrange resource pools according and want to be able to accept deposits from the public at large. So far, they have had the powers to devise their own policies, targets, arrange resource pools according to the needs of their

members, and with their consent. These have emerged as autonomous, democratic circumstances facing them. The overriding clause in section 32(15), the Microfinance Act is meant to override all other related laws. Hence, the MACS Act and other cooperative Acts will be completely undermined.<sup>4</sup>

## Other Provisions

The Central government has the power to exempt certain MFOs or a class of MFOs from the application of the Act or parts of it.<sup>(17)</sup> The Central Government also has the power to make rules on a range of things, as the Bill.<sup>(18)</sup> The NABARD is given power to make regulations on a range of things, including management of the Fund, determining terms of loans from the NABARD, forms of securities.<sup>5</sup> While creating this elaborate regulation mechanism, the Bill fails to address some basic concerns of Small Savers/ SHGs on interest rates, policy on unproductive loans (on death/marriage/illness- which are not expected to create any income, and hence, are difficult to pay back), policy on securities/collateral (lack of collateral being the key reason why these sections are not able to access credit from the market.)

## Comments on the Bill in General

The Microfinance Bill 2007 to suffer from a promise of over-regulation. If one asks the question, why should the microfinance activities spreading across the country, be tidied up and regulated in the form of a 'sector', the answer may be efficiency or better resource management, but that can be done through the existing structures in place as well as legislative instruments. For instance, the RBI has urged commercial banks to earmark some amount of funds for micro-credit from time to time, and issued guidelines. The State Cooperative Societies Acts can be strengthened. The NABARD can be involved sector-wise, in agriculture, small industries, urban small enterprise, etc. What the bill seems to lack is a real idea of how these informal institutions have been working.

The documentation of the experience of SHGs so far seems to suggest that these have pooled in not only collective savings, but also collective judgment about how best a certain problem or obstacle can be tackled. And this can be done only through micro-interventions and micro-thinking. The policies that may be formulated at a national level by the NABARD, in exercise of its abundant power in the Bill, are not going to affect small farmers, auto rickshaw-owners, cash-crop-growers alike.

Hence, the Bill seems to be doing the unnecessary and creating impediments in the emergence of decentralized, participatory, autonomous self-help units, which have been the goals of most micro-credit movement across the world. Micro credit movements have not only represent an initiative towards alleviation of poverty, but also



decentralized democracy. It defeats the purpose of an efforts towards a successful 'microfinance sector' if it is regulated, aided, controlled and supervised by state-aided institutions.<sup>4</sup>

## Limitations of Micro Finance

In recent years, the development community comes to view micro credit as an increasingly important tool for poverty alleviation and economic empowerment. In Kumaun Region Micro Finance developed rapidly in number and size. Micro-Finance is a difficult mode of financial services. Micro Finance provides different financial services in a sustainable way. Micro financial services are the hope for sustainable finance, employment generation and poverty alleviation for poor people. But it has some problems for proper growth they are as following-

- For providing micro finance services to the society it is must that there is better coordination and co-operation between Government, NGOs and society but in India we have to develop this working method. In India government, NGOs have to make plans and strategies according to the local resources and for local requirements.
- NGO controlled micro credit does not offer a solution to the general problems of rural credit. It does not an instrument for mobilizing large scale funds for technological change in the countryside, and it does not and cannot supplant the informal sector or over come historical imperfections of rural credit markets.
- NGO controlled micro credit organisations are not accountable to public or to local governments. Being essentially private, market-oriented organizations, their only formal responsibility is to their donors.

- Some people believe that the problem of poverty is very deep rooted in India only with the help of Micro-Finance it is not possible to solve the problem and micro finance is not able to fulfill the credit need of poor people.
- If we compare micro-finance with banks, Banks have many advantages over private micro credit organisations as providers of small scale loans. They have advantages of scale; the banking system in India has a reach and spread that NGO, controlled micro credit cannot begin to match.
- NGO supported SHGs are not able to give long term big loans to the needy people as a result SHGs loans are not able to develop entrepreneurship among the people.
- The performance, accounting standards, and accountability are not set for NGOs and SHGs this is the major problem in the growth of micro- finance.
- Government of India Introduce micro-finance Bill 2007 but it is failed to touch every aspect of micro-finance that way it has some limitations.
- It is not possible to make proper rules and regulations according to for every aspect in the field of micro-finance. For example the interest rates for inter loaning are not fixed and it is not possible to lived interest rates according to the requirement.<sup>5</sup>

### Assessment of Micro-Finance bill 2007

After considerable procrastination, the government of India has introduced a bill in the lower house of parliament to regulate micro-finance institutions (MFIs) in the country. The bill called the micro

financial sector (Development and Regulation) Bill, 2007 is the result of the demand from certain sections of the growing microfinance sector for a suitable regulatory framework. Even though parliament is yet to take it up for discussion, the proposed bill has already generated a lot of controversies.

The concerns over the bill have arisen due to the following reasons. Though it has a very broad title in reality it focuses only on a narrow set of institutions acting as MFIs. There is a view that entrusting the responsibility of regulation to the National Bank for Agricultural and Rural Development (NABARD) is not a second idea as NABARD has many limitations as a regulator. Further, critics say that self-help groups (SHGs) may become subservient to MFIs which could siphon off their savings for their own lending needs leading to disempowerment. Doubts have been raised over the ability of their argument from the women's lobby that women being the major stakeholders of the bill have not made any attempt to give adequate representation. The entire process has left much to be desired in terms of transparency and wider consultation.

Regulation of financial intermediaries in general is attempted to prevent failure and to protect the interest of the depositors in case of any failure. Another major concern of regulation is to ensure the stability of the financial system as failure of some intermediaries may turn contagious affecting the whole system.<sup>6</sup>

Is there need for legislation to promote the micro finance sector in the country? As per the bill, the major goal is to ensure financial inclusion of poor who continue to face difficulties in accessing the formal banking system. To bring about financial inclusion, the bill aims at developing the micro finance sector which is faced with many

constraints including absence of legal framework for its growth. The aim as stated in the bill is "to provide for promotion, development and orderly growth of the micro finance sector in rural and urban areas for providing an enabling environment for ensuring universal access to financial services, especially to women and certain disadvantaged sections of people, and thereby securing prosperity of microfinance organisations not being regulated by any law for the time being in force and for matters connected the with or incidental threats".<sup>7</sup>

Financial inclusion of the poor continues to be a major challenge: The recent all India Debt and investment survey has revealed that only about 13.4 percent of the rural households had access to institutional credit.

For the households in the lower four asset holding classes, the same proportion varied from 3.6 to 10.9 per cent indicating a very low outreach of the poor by the institutional agencies. Further, though institutional credit accounted for about 57 per cent of the debt incurred by all the households, for the households in the lower four asset holding classes, it is the non-institutional agencies which accounted for the major share. Similarly, the Rural Finance Access Survey (REAS) conducted by NCAER had also revealed the acuteness of the financial exclusion of the poor. The REAS had found that nearly 87 per cent of the poor households were without access to any formal credit and about 70.4 percent of the poor did not have any deposit account.

### Scope of the Bill

The Bill tries to cover broadly two category of institutions namely NGOs and cooperatives. The institutions proposed to be regulated are

called micro finance organisations (MFOs). The NGOs proposed to be regulated include both societies and trusts established under central and state enactments. Cooperative includes all thrift and credit cooperatives except urban cooperative banks established under various cooperative acts of both the state and central governments. It excludes from its purview other institutions like NBFCs section 25 companies and scheduled bank including RRBs. The proposed regulation therefore is more institution based than activity based.

## Regulatory Norms

The bill has proposed both prudential and non-prudential norms for regulating the MFIs. For core regulation purposes, the bill is considering only those MFIs which want to take up thrift services and exclude credit only MFIs. Exclusion of non-deposit taking MFIs may ease the burden of supervision. However, if there is any self-exclusion by MFIs from regulation, the poor served by those MFIs may not get access to savings services.

Deposit taking MFIs need to obtain a certificate of registration subject to satisfying conditions like being in existence for three years with a credible management team and with a minimum not owned fund of Rs. five lakh. The existing MFIs offering thrift services too need to obtain the certificate within six months of the enactment of the bill. Among existing MFIs, mainly cooperatives may have to apply for this certificate which is an unnecessary requirement. How far will these provisions be effective in ensuring entry of only credible MFIs? While the requirement of three years of operation might become restrictive for newer MFIs, very small NGO and cooperatives might find it difficult to mobilize the required entry capital. Many of them may remain unlicensed as is the case with many primary cooperative banks. The entry capital not being very high, the chances of entry unscrupulous elements cannot be ruled out. The real test would lie in ascertaining the credibility and character of the management. It is here that NABARD may have to exercise due diligence by here that NABARD may have to exercise due diligence by relying on district development managers and local civil society association.

The other major prudential norms prescribed are the creation of reserve fund by the MFIs out of their net profit or surplus. MFIs are required to keep aside 15 percent of their net profit annually to create the reserve fund. The depositor will have the first charge over the assets created out of the reserve fund. Is the reserve fund adequate to protect the depositors? This will depend upon the extend of surplus or profit an MFI can generate. In case an MFI is just breaking even or incurring losses it may not be able to create or augment its reserve fund. Beside the fact that the bill has not clearly clarified the charitable nature of the micro finance activity, an MFI might come under pressure to generate profit or surplus.

This might force it to shift the additional expenses on to the clients also, any inability to create reserve fund may affect its capacity to mobilize savings as the eligible clients may become skeptical of the MFIs ability to protect their deposits. Hence, the level and extent of protection through reserve fund may vary across MFIs. In order to give uniform protection to the deposits of poor households it is required that a suitable and affordable deposit insurance system is put in place. In addition, local monitoring mechanisms involving the client may also be necessary.

The bill does not provide any provision for loan losses and for maintaining risk weighted capital adequacy. It seems to be relying on the historical high recovery performance of the MFIs. Since loan default risk is integral to any lending it is necessary that the MFIs make some minimum provision for loan lessees. Up to a certain level of loan business and losses, MFIs may be told to make voluntary provision for loan losses. After crossing the prescribed level, MFIs may be compulsorily



required to make provisioning. Non prescription of capital adequacy norm seems to an appropriate measure given the constraint faced by the MFIs in raising capital on a constant basis.

The rest of the major provisions in the bill relate more to reporting, supervision and punitive measures. MFIs taking thrift are expected to prepare statements of final accounts in specified forms and get them audited by qualified auditors. NABARD may also order a special audit in case of any discrepancy. All MFIs, taking thrift or not, are supposed to file periodic returns duly certified by qualified auditors. NABARD can also order inspecting of any MFI and can take action to wind up its operations.

Offences like willfully making false statement or non-compliance with any norms can attract fine (up to Rs. 20000) as well as imprisonment (up to two years).

The bill has proposed making any offence pertaining to payment of savings a cognizable offence under criminal procedure code. The bill also provides for an Ombudsman for setting disputes between clients and MFIs.

The bill has designated NABARD as the regulatory agency for MFIs with the responsibility of formulating policies for the development of the micro finance sector. Many doubts have been raised over this. Since most MFIs are civil society based organizations, their regulation may require a different approach altogether. NABARD as a conventional institution may lack the orientation needed of the purpose and may end up imposing mainstream regulatory norms on these institutions making them lose their inherent strength. It is argued that NABARD's

supervisory and institutional development role with regard to RRBs and cooperatives has not been funded satisfactory. NABARD has even overseen the transformation of RRBs which were created as "small man's banks" into regular banks during the reforms period.<sup>8</sup>

As regulator of MFIs, NABARD might face some conflicts of interest. As a promoter of SHG-Bank Linkage programme (SBLP) NABARD might face difficulties in promoting the alternate microfinance sector. There have been quite a few incidents where SBLP has entered into conflict with MFIs as both the interventions are vying for the same target group. Another basic conflict of interest relate to NABARD's role as lender v/s regulator. NABARD has launched direct financing of NGO's/MFI's recently. How far would NABARD, an apex lender, veering more towards market based operations be able to look after the developmental concerns of MFIs? It may require a major effort on the part of NABARD to transcend these conflicts. NABARD also has to enhance its ability to deal with NGO-MFIs including changing the orientation of its personal to deal with unconventional entities, ideally, the government should constitute a new regulatory authority which is devoid of the above conflicts.

To guide NABARD, the bill has proposed the constitution of an advisory council called Micro finance Development Council (MFDC). The council consists of representatives from the Government of India, RBI, NABARD, SIDBI and the National Housing Bank. Six representatives are to be appointed from outside. Given the fact that only a certain segment of MF sector to be regulated, the council may find it difficult to address the overall needs of the MF sector. There is only a very limited representation of women on the MFDC.

The bill has proposed the constitution of microfinance development and equity fund (MDEF) on the lines of an existing fund. The MFDC can mobilize resources from government and from other entities including donor agencies. The MFDC is to be utilized for the purpose of development of the microfinance sector including providing loan and equity capital for MFLS. Many commercial banks had made contributions to the existing fund with the intention of developing the SBLP. Can NABARD now utilize the fund for development of SBLP also? Available evidence suggests that NABARD so far has not been able to utilize the existing fund fully. The bill also provides for provision of loan or refinance from the fund to MFLS. This is a potential area of conflict, if the fund is meant for development of MF sector, how relevant is it to allow NABARD to lend from it? It would be better if NABARD uses MDEF only for developmental and capacity building purpose. Any loan out of MDEF for institutional developmental purpose should be provided only on soft terms. Further, MDEF can also be used for contribution of equity. However, none of the MFIs contemplated for regulation would require equity in a major way. It is the other form of MFIs, especially NBFCs which are in need of such equity.

### Ceiling on Rate of Interest

A major area of debate which the bill has not touched upon is the ceiling on lending rates of MFIs. It only mentions that NABARD should strive to create the required awareness so that clients are able to get services at affordable cost.

Though capital lending rate has become incompatible with the current neo-liberal policy environment, the issue needs to be

understood from a proper perspective. The rate of interest that prevails in the MF sector is higher than formal rates which are attributable to the high cost structure faced by the MFIs. At the same time, in charging higher interest rate on their loans many MFIs have been driven by the dubious goal of attaining financial sustainability. MFIs have emerged mainly in response to market failure and cannot behave like market based institutions. It is desirable that the bill suggest prescribing lending rates at least on some reasonable basis given the reality of high cost structure of MFIs. NABARD and the MFIs need to work together in deciding the limit periodically. Simultaneously efforts should be made to bring down the costs for the MFIs through cheaper refinance and through adoption of various innovations.

## Conclusion

Micro finance is an intervention which has emerged in response to the need to address the challenge of financial inclusion. The entry of NGOs in financial intermediation has to be seen from this angle. Using strengths of social intermediation, NGOs so far have shown considerable potential in contributing to the cause where formal institutions have failed, and therefore it has become necessary that NGOs are helped in overcoming their constraints so that they are able to play the role of financial intermediation more effectively. The bill's relevance comes mainly from this perspective. The bill aims at creating an enabling provision for the NGOs to deliver microfinance in an integrated way and seeks to achieve this by prescribing relatively liberal prudential norms.

The bill suffers from quite a few limitations. The aim of financial inclusion is sought to be achieved by regulating a narrow set of institutions. The bill fails to recognize the reality that NGOs can play only a supplementary role and those formal institutions need to contribute in a major way for the cause. Further, the bill is institution- focused in nature and leaves out a certain set of MFIs like NBFCs and section 25 of Companies Act. On both counts, the bill is a case of "missing the forest for the trees". The other major limitation is the intrusive nature of the bill. It has brought cooperatives into the fold of regulation by wrongly assuming that they lack any legal framework. Also MFIs not accepting deposits have been included for the purpose of inspection and reporting. There is a need for the bill to pay attention to safety of deposits and in ensuring affordable lending rates. Simultaneously, efforts are needed to ensure that the poor and women are able to exercise control and ownership over MFIs.

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## CONCLUSION

From the previous five chapters it is clear that the Micro-finance developed considerably in Kumaun Region. NABARD, Aajeevika Project (Supported by IFAD), SEWA Bharat and some international micro credit institutions e.g. Micro-credit Campaign USA, Planet finance working in the field of micro finance in Uttarakhand.

Here the scholar has tried to make conclusion on the basis of Data, case study drive from the last five chapters which covered nearly all the aspects of micro finance in Kumaun Division. The scholar Tried to find out the limitations and weaknesses of the micro finance in Kumaun Division. On the basis of conclusion, recommendations have been made for improving the working culture of micro-finance org, NGOs and SHGs.

### Role of NABARD

NABARD is the apex refinance institution, in the rural and agriculture credit sector. NABARD functions include not only extension of credit but also evaluation, monitoring and inspection of client banks, implementation of programmes of the Government of India in agriculture and rural development.

NABARD is the apex refinance institution in the rural and agricultural sector, offering various types of refinance facilities to commercial bank, SCARBDs, PACs, RRBs, NGOs, partnership concerns, companies, state owned corporations or cooperative societies as immediate beneficiaries.

NABARD financed 620109 new SHGs during 2005-06 (539365 SHGs during 2004-2005). The cumulative number of SHGs credit linked with banks increased to 2238565 as on 31<sup>st</sup> March 2006 covering more than 32.98 million poor house holds as against 1618456 SHGs covering 24.3 million Poor households as on 31<sup>st</sup> March 2005.<sup>1</sup>

## Social Economic Status of Kumaun

The topography of the Kumaun Division is such that most of the area is forest cover and among the six districts of Kumaun Region Almora, Pithoragarh, Bageshwar and Champawat are fully hill districts. In hill districts the job opportunities are very few. The main source of livelihood in hill areas is agricultural. The main characteristics of hill areas agriculture are following.

- In hilly districts of Kumaun Agriculture production is very low because the soil of hilly areas is not so fertile.
- Agriculture of hilly areas does not fulfill even the basic livelihood requirements of the inhabitants.
- Agriculture has failed to provide permanent income and employment to hilly areas people.
- In hilly areas there are no proper irrigation facilities for agriculture.

The situation in the plain areas of District U.S. Nagar and Nainital is somewhat different. In Bhabar and Tarai the agriculture is developed because in Bhabar and Tarai, the land is fertile and irrigated. These areas are considered as food grain basket of Uttarakhand.

In Kumaun Division the main source of livelihood is agricultural work, due to lack of job opportunities in the Kumaun Region some people migrated to big cities and towns for search of job. Some of the



villagers are in services including government and armed forces services. In hill areas of Kumaun there is not any specific trade or industry. But the situation in the plain areas of district Nainital and U.S. Nagar is somewhat different due to the good roads and railway links some small and medium industries developed in this area.

Sound infrastructure and sustainable capital base are most necessary factors for the development of any region. Government has failed to develop sound infrastructure in Kumaun region. Other main problem of Kumaun division is, Government agencies have failed to provide enough, easy and sustainable finance to the poor unemployed mass, as a result the development of entrepreneurship is limited in Kumaun Division. In some cases due to the lack of proper training and vocational assistance the credit supplied has not been successfully utilized by the people.

In the fields of Dairy, Poultry, Horticulture, Herbs and Small Scale Industries, Tourism the prospects seems bright in Kumaun Division. If proper finance facilities, training and vocational assistance provided by the government through micro finance organization, NGOs, we can look forward to solve the problem of unemployment and poverty in the times to come.

### Contribution of the Micro Finance

From the study conducted on the NGOs, SHGs it is clear that the micro finance helped the poor and unemployed people to develop their micro enterprise and enhance their living standards in Kumaun Division. The main contribution of NGOs and SHGs in the fields of social and economical development is as following.

## 1. Women Empowerment Through SHGs

- SHGs redefine roles and responsibilities for a more balance division of work between men and women. NGOs trained women in non traditional skills to break preconceived notions of what women can do and cannot do.
- To link SHGs with banks and other financial institutions for self employment and income opportunities.
- To provide long term and short term loan according to SHG members requirement for the employment generation.
- To provide a common platform to discuss and solve the problems of women in general, share experiences, success and failures.
- To develop women capacity for the economic and social development.
- Formation of women SHGs.
- The main problem of Kumaun Division is migration for job opportunities, some NGOs try to build up sustainable livelihood systems so that man are not forced to migrate for job and leaving the entire burden of the family on the women.
- Women specifically in hill areas, plays a vital role in the development process as they are responsible for all activities to fulfill basic needs. Some NGOs implemented plans according to the requirement of women.

## 2. Micro enterprise Development

In Kumaun Region vast sections of the population caught up in the web of poverty and unemployment the industrial and agricultural

sectors are unable to absorb the growing labour force. The biggest challenge is to generate enough employment for every person in sustainable manner but it is unfortunate that large numbers of people are struggling for employment and their basic needs of livelihood. If we are able to develop micro-enterprise in sustainable manner with the help of local resources and local skill then people find sustainable way to alleviate poverty.

Micro enterprises can play an important role in improving the quality of life and poverty alleviation. For development of micro enterprise the main resource is finance but in rural areas non availability of adequate and timely credit is the biggest problem. With the help of self help groups some NGOs provide micro finance for the development of micro-enterprise in Kumaun Division.

### 3. Change Social Economical Standard of SHGs Members

It has been observed that the social economic standard of the SHGs members have improved, most of the SHGs members have been able to increase their expenses on housing, education of children, food, medicines and other miscellaneous expenses.

### 4. Capacity Building through Horticulture

Uttarakhand has tremendous opportunities for horticulture sector. Some NGOs working in the field of horticulture in Kumaun Division. INHER, HWS, CHEA and CHIRAG working in the field of horticulture.

It has come to notice of the scholar that INHER, CHIRAG, HWS and CHEA selected some villages in there working areas and encouraged the village women for cultivation of cash crops. During the first meeting with

villagers NGOs workers explained the benefits of cultivating vegetables, herbs and flowers. In most villages only few families were engaged in this enhanced livelihood activity.

With the help of horticulture department some NGOs supply high yielding seeds to SHGs, and also provide training on modern horticulture practices such as use of poly house and poly tunnels.

Researcher feels that horticulture promises good economic results in comparison to the traditional agriculture practices in the hills of Kumaun.

## 5. Medicinal Plant Cultivation

In Kumaun hills many SHGs involved in Medicinal plant cultivation, Harvar, Bahera, Amala and Kalijiri harvested and collected by many SHG in hilly areas. Some SHGs members marketed these medicinal products locally and earn some money, NGOs conducted meetings for promotion of medicinal plant propagate commercial importance of medicinal plants and motivated villagers for medicinal plant cultivation.

## 6. Provide Finance for the Development of Agriculture

- In Kumaun Division some SHGs provide loans for seeds, proposed crop and loans for agriculture inputs.
- Some SHGs provide finance for fruit processing work. INHERE and CHIRAG provide training to SHG members for fruit processing. Generally NGOs focus on organic fruit processing and not using chemical, preservatives, artificial colours and flavours.

## 7. Credit for Milk Production and Dairying

Livestock tending is done mainly by women in Kumaun Division. The dairy business is developed in Bhabar and Tarai of Kumaun Division compare to the hilly areas. In hill areas women look after cows and buffaloes for milk production. For purchasing livestock people need funds, with the help of there SHGs they are able to generate funds. After having a cow or a buffalo animals are milked twice a day. The average yield is between three and four liters per day. The milk is either consumed within the family or partly consumed and partly sold. In Kumaun there is good demand of milk in the market, hence easily sold in the market. On an average, it workout to Rs 20 per litre of milk. Some SHGs members processed milk into Ghee or Mava. Mava is made everyday and Ghee every ten or fifteen days, both Ghee and Mava sold for cash.

With the help of micro finance many families purchased cows and buffaloes. Some SHGs provides inter loan to its his members to develop their own dairy business.

## 8. Water Management

The task of bringing water for family use, for drinking, cooking and for washing is variably fall to the women. In hill areas of Kumaun Women spent lot of time for bringing water from the water source. The traditional sources of water in Kumaun are Naulas (Small Stepwells), Dharas (Springs) but these traditional sources of drinking water is not able to meet out the water requirement of cumulative growing population.

Kassar trust and some other NGOs works in the field of water management in Kumaun. The working areas of Kassar trust is Bageshwar

and Amora Districts. Kassar Trust provides technical training to SHG members for conservation and proper use of water.

#### 9. Bank Linkage of SHGs in Kumaun

From the information derived by the study it has come to notice of the scholar that in Kumaun region people have the saving potential and it can be better used through SHGs. In Kumaun SHGs has been successful in achieving a high percentage of Inter loan recovery as a result many SHGs linked with banks, linkage with Banks were able to reduce the transaction cost of Banks and there is a good amount deposited in the banks.

#### 10. Observations in Inter-loans by SHGs

The amount of inter-loans disbursed by the SHGs is directly proportional to the income of SHGs because more secure inter-loans show more interest earned by SHGs. In Kumaun some SHGs generate their own funds by making monthly savings in the bank and most of them are doing inter-lending. The rate of interest is not fixed in SHGs.

The SHGs are supplying enough credit to the poor people for their production, agriculture and consumption needs. It has been noticed by the scholar that there is good technical support, motivation, and training provided by the NGOs for income generation activities.

#### 11. Observations Regarding Savings

Savings are the key factor for the progress of micro finance. Good savings are the symbol of a successful SHG by analysing the data, it can be understood that most of the inter loan are coming from the savings. Some SHGs have CCL in the Banks but generally they did not use the CCL for inter lending. Saving amount is not fixed, in every SHG the saving

amount is decided by the SHG members. Some SHGs generate their own funds by making monthly savings in the bank and most of them are doing inter loaning by this fund.

From the information derived by the study it has come to notice of the scholar that in Kumaun Region people have the saving capacity and it can be better used through SHGs. In Kumaun SHGs has been successful in achieving a high percentage of inter loan recovery.

It has been revealed from the data and case study the most of the SHG members have been able to generate more income with the good utilization of inter-loans.

## Suggestions

No doubt micro finance succeeded in making a good beginning in promoting rural development with social justice, yet there is an urgent need for good Government policy for improving the working of the micro finance in several ways.

- It is the need of time that the focus should be shift from micro-credit to micro-finance and then to income generation activity.
- For income generation activities and enterprises to be successful, there must be a supportive environment that does not place unnecessary legal barriers or constraints in the way of development. For this government have to make the supportive policy.
- To be successful in business poor people need access to information, knowledge about the enterprise, knowledge about finance and making new products and reaching the market. Poor

mass also need the opportunity to learn new skills such as book keeping and managing finance.

- Micro finance in Kumaun Division has failed to receive active support of the state government of Uttarakhand. MFOs have to face competition with money lenders. Micro finance is able to provide credit facilities to the poor people who have been relatively neglected in the past both by the co-operatives and commercial Banks. The State Government of Uttarakhand should take initiative in the formation of SHGs of the small farmers; lend less labourers, rural artisans, and persons of low income who engaged in various occupations.
- The success of the Micro Finance would depend upon its credit administration credit play a important role in Development of any income generating activity. So government and NGOs have to develop a policy for monitoring the progress of loans and efficient recover of loan.
- The success of the anti-poverty programme depends to a large extent on the interaction between NGOs and development agencies. This is essential for the identification of borrower families, selection of activities, and provision of back up support for the income generating activities.
- The income generation activity should be location specific with adequate forward and backward support.
- There is also a great need for a broad co-ordination of the policies and procedures of the various rural banks at state label.



- NGOs and MFO must have to review the performance of SHGs and set guidelines and plans for SHGs.
- For orderly and rapid growth of micro finance sector we need
  - (a) Transparency and good governance in micro finance sector.
  - (b) We have to set area related methods of operation.
  - (c) Specify accounting norms and audit norms of NGOs and MFOs.
- There is a need to establish a committee to advise NABARD at state level for formulation of policies related to the orderly growth and development of the micro finance sector.
- Government, NGOs and MFOs have to develop this approach that members of SHGs are the main actors of the micro finance.
- The government, NGOs and MFOs, under any circumstances, will not give any grant or cash subsidies to any SHG or any group member.
- Before the actual income generation programme the NGOs conduct a feasibility survey for employment generation programme. It includes product survey, Raw material survey, workers skill survey and marketing survey and environmental survey.
- Uttarakhand State needs to build a separate structure for the development of micro finance.
- Government of Uttarakhand have to develop a policy for vocational education and formal education because education, as an instrument, plays a vital role in the versatile development of human being and influences the social as well as economical development

of a country or region. As the contribution of skilled and educated work force accelerates the pace of economic development to a great extent, it is essential to uplift the qualitative characteristics of the human resource.

- It has been observed by printed data, personal interviews and general observations that the staff of all NGOs is working to the best of the capacity but the salaries and perks provided by the NGOs are less.
- Government has to set some standards for the performance of NGOs. The performance, accounting standards, and accountability are not set for NGOs.
- NGOs should try to keep distance from political interference to provide better social services.

### Human Resource Policies of NGOs

Human resource development is an essential factor for good working of any organisation. It has been found that there is no separate provision for training of NGO workers. It has been observed that the NGOs members and staff are not well trained.

- State Government should develop a training organization for the training for NGOs workers and members. If state government makes policy and a training organisation for NGOs, then NGOs will be able to provide efficient and affordable services to society. For providing micro-finance services to the society it is must that there is better coordination and cooperation between Government, NGOs and society.

State Government should conduct need base training programmes regularly on various subjects of micro finance. The training programmes should include the induction of new courses, refresher courses, orientation courses, certificate courses and degree courses in the specialized areas of micro finance. Accounting and auditing are very essential for micro-finance sector. In this connection accounting and auditing courses can play a significant role in micro-finance sector.

### Performance Assessment of NABARD

- NABARD is the refinance institution in the rural and agricultural credit sector. The Micro Finance Sector Bill 2007 envisages NABARD as the primary regulator of the MFOs and the micro-finance sector. In Uttarakhand over all performance of NABARD can be said quite satisfactory, but there is a great scope of expansion of Micro Finance in Kumaun Division. Availability of more financial resources and active cooperation of NGOs and State Government is the need of the hour.

### Suggestions for NABARD and State Government

- NABARD should seek out successful approaches for the improved out reach of the formal system through formation/linkage of SHGs to banks.
- In order to ensure the proper use of credit and faster recycling of funds and also reaping the benefits of development programmes, the NABARD should further strengthen the monitoring mechanism in the tune with the development programmes. NABARD should

continue its efforts to develop rural non- farm sector by mapping potentials for developing area-based programme.

- With a view of social economical condition of Kumaun Division, NABARD should provide more refinance on easy terms and conditions.
- The loan recovery performance is good in SHGs of Kumaun Division but there is a need to improve the overall recovery climate for the credit system. The interference of state government, way of announcement of schemes of interest subsidy waiver is one of the factors which affects the recoveries of SHGs also. These unhealthy practices should be checked.

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## APPENDIX :1

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## NAINITAL

Detail of Loans, and Saving bank membership of 50 people in Nainital District

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In Percentage</b>
a-No. of individual saving bank account	20	40
b-Individual avail loan from bank	10	20
c-Individual avail loan from money lenders	30	60
d- SHG members who avail loan from SHG.	40	80
e- Return of inter loan by SHG members	38 out of 40	95

## ALMORA

Detail of Loans, and Saving bank membership of 50 people in Almora District

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In Percentage</b>
a-No. of individual saving bank account	10	20
b-Individual avail loan from bank	7	14
c-Individual avail loan from money lenders	35	70
d- SHG members who avail loan from SHG.	45	90
e- Return of inter loan by SHG members	45 out of 45	100

## PITHORAGARH

Detail of Loans, and Saving bank membership of 50 people in Pithoragarh District

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In Percent</b>
a-No. of individual saving bank account	25	50
b-Individual avail loan from bank	5	10
c-Individual avail loan from money lenders	40	80
d- SHG members who avail loan from SHG.	35	70
e- Return of inter loan by SHG members	35 out of 35	100

## CHAMPAWAT

Detail of Loans, and Saving bank membership of 50 people in Champawat District

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In Percentage</b>
a-No. of individual saving bank account	15	30
b-Individual avail loan from bank	6	12
c-Individual avail loan from money lenders	29	60
d- SHG members who avail loan from SHG.	20	40
e- Return of inter loan by SHG members	20out of 20	100

### UDHAM SINGH NAGAR

Detail of loan and Saving bank membership of 50 people in Udham Singh Nagar

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In percentage</b>
a- No. of individual saving bank account	30	60
b-Individual avail loan from bank	20	46
c-Individual avail loan from money lenders	40	80
d- SHG members who avail loan from SHG.	45	90
e- Return of inter loan by SHG members	40out of 45	88.88

### BAGESHWAR

Detail of loan and Saving bank membership of 50 people in Bageshwar District

<b>Detail of loans and saving bank account of 50 individual</b>	<b>No. of individual</b>	<b>In Percentage</b>
a-No. of individual saving bank account	12	24
b-Individual avail loan from bank	6	12
c-Individual avail loan from money lenders	35	70
d- SHG members who avail loan from SHG.	30	60
e- Return of inter loan by SHG members	30out of 30	100

Table-10

Detail of Loans, and saving bank membership of 300 people from formal finance system

Districts of Kumaun Division	No. of Sample (individual)	Name of Block	No. of Individual who have a saving bank a/c before the membership of SHG		No. of Individual who avail loan from Bank		No. of Individual who avail loan from money lenders
			in %		in %		
Nainital	50		20	40	10	20	30
Almora	50		10	20	7	14	35
Pithoragarh	50		25	50	5	10	40
Champawat	50		15	30	6	12	29
U.S. Nagar	50		30	60	20	40	40
Bageshwar	50		12	24	6	12	35
Total	300		112	37.33	54	18	209

